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Politics this week

Oct 18th 2001
From The Economist print edition

The war continues

EPA

America continued its military action against **Afghanistan** using bombers and AC-130 gunships which can be used against ground troops gathered in small numbers. Observers said that this suggested that use of America's own ground forces was imminent.

See article: Nation-bruising, nation-building

The Taliban seized two UN warehouses with more than half the World Food Programme's **aid** for Afghanistan. One was restored to UN control the next day.

Panic swept America after a letter containing **anthrax** was sent to Tom Daschle, the Democratic leader of the Senate (the third confirmed incident of anthrax by post); more than 30 people in Mr Daschle's office tested positive for exposure to the bacterium. The House of Representatives will close for nearly a week for a security sweep. The FBI said it had had some 3,000 false anthrax alarms. Elsewhere, Kenya reported receipt of at least one letter contaminated with anthrax.

See article: Anthrax isn't contagious; anxiety is

Bayer undertook to triple production of Cipro, the only antibiotic approved for the treatment of anthrax. Tommy Thompson, America's health and human services secretary, declared that he would seek funds to lay in enough supplies to treat 12m people for 60 days.

The outcome of the Democratic primary in **New York city** was put in doubt after a recount was ordered. The race had appeared to be won by Mark Green, the city's public advocate. His rival for the nomination, Fernando Ferrer, has retracted his concession.

See article: To run is to lose

Cuba reacted angrily to Russia's announcement that it will close its remaining spy-base on the Caribbean island, saying no agreement had been reached. The Cubans accused President Vladimir Putin of wanting to give “a special present” to George Bush, his new-found ally against terrorism.

Mike Harris, the powerful premier of Ontario, **Canada's** biggest province, resigned.

Fed up with a long recession and threats of budget-balancing austerity, **Argentina's** voters gave their Alliance government a walloping in congressional elections.

See article: Calling for change--but in which direction?

Australia said it would send 1,550 troops, along with military hardware, to join the American operation in Afghanistan.

Assassination in Israel

EPA

Rehavam Zeevi, Israel's far-right minister of tourism, was assassinated by

the Popular Front for the Liberation of Palestine in revenge for the earlier killing of the group's leader. Ariel Sharon said he held Yasser Arafat responsible, though the Palestinian Authority was quick to condemn the killing and arrested several PFLP men. Six of Mr Zeevi's right-wing colleagues, who with him had been at the point of resigning from the governing coalition, said they would give Mr Sharon a chance to show toughness.

See article: Which way will Ariel Sharon go now?

Egypt's President Hosni Mubarak ordered that 170 suspected **Islamic militants**, who had long been held without trial, should go before a military court at once.

Police in **Malawi** arrested a leading opposition politician on charges of treason relating to a failed coup. Brown Mpinganjira was a founding member of President Bakili Muluzi's ruling party, but formed his own party, the National Democratic Alliance, partly to oppose the president's efforts to win a third term in office.

A report on mortality rates revealing that AIDS is the biggest killer in **South Africa** was finally released. The government had delayed publication of the Medical Research Council's report, while the official statistics agency sought to pick holes in its findings.

Re-starting Europe's heart

Governments in both **France** and **Germany** started to revise plans to pep up their slowing economies. Leaks from Germany's finance ministry revealed that estimated GDP growth for next year is now 1.5%, down from a previous official guess of 2.25%. Laurent Fabius,France's finance minister, proposed a budget for next year that would double tax-credits for the low paid and give help to investors.

Tensions between **France's** Socialist-led government and its conservative president rose with the publication of a “tell all” book by Olivier Schrameck, the prime minister's closest aide.

In **Italy**, conflicting attitudes to America's bombing of Afghanistan threw the opposition on the left into disarray. The main ex-Communist party and the centre-left alliance's current leader, Francesco Rutelli, were in favour, but two still-Communist parties, the Greens and some centre-left Christian Democrats were against.

Tension rose in **Georgia** and its Russian-backed breakaway statelet, **Abkhazia**, where skirmishes continued and Chechens helped the Georgians. Meanwhile, over Chechnya itself, Russians and Chechens were said to be putting out peace feelers through intermediaries.

See article: Dangerous relations

Greece's centre-left prime minister, Costas Simitis, was re-elected as leader of the Pan-Hellenic Socialist Movement, known as Pasok.

AP

Unco-operative

With hours to go before the opening of the **Asia-Pacific Economic Co-operation** summit in Shanghai, the host, China, still rejected Taiwan's plan to send former Vice-President Li Yuan-zu. But Presidents

Bush and Putin were on their way. APEC's foreign ministers signed a declaration condemning terrorism.

See article: China's disappointment

The **Indian** government approved legislation to combat terrorism, making it compulsory to pass information about terrorist activities to the authorities.

See article: Crossing the line

India shelled Pakistani positions across the line of control in Kashmir, the most serious outbreak of hostilities for almost a year. A visit by America's secretary of state, Colin Powell, did nothing to resolve tensions.

See article: Remember Kashmir

Singapore's government called a general election for November 3rd. It could have waited until August next year.

The prime minister of **Japan**, Junichiro Koizumi, offered a “heartfelt apology” to South Korea for his country's actions during the occupation of the peninsula and the second world war.

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Business this week

Oct 18th 2001
From The Economist print edition

Going bust

Bethlehem Steel filed for chapter 11 bankruptcy protection. America's second-largest steel maker joins 19 other steel companies that are seeking protection from creditors. The business was suffering from overcapacity and competition from cheap imports even before America's weakening economy hit home.

See article: America's troubled steel companies

Polaroid also filed for bankruptcy protection. The instant-photo firm had been in poor financial condition for some years and will continue seeking a buyer for all or part of the company.

See article: Bankruptcy on the rise in America

Hanging up the phones

AP

Siemens, a huge German technology firm, announced that it would shed 7,000 jobs from both its fixed-line and mobile-phone operations and close some factories to return the businesses to profitability.

British Telecom and **AT&T** agreed that it was time for **Concert**'s finale. The demise of their loss-making business-telecoms joint venture will put 2,300 people out of work and cost $7.3 billion; AT&T will suffer the most, with charges of $5.3 billion.

GM said that profits in the third quarter had fallen by 54% to $385m, excluding charges of $753m. **Ford** announced a quarterly loss of $692m. After losing $752m in the previous quarter, these are Ford's first consecutive quarterly losses since 1992.

France's government succumbed to pressure from mobile-phone companies and cut the cost of **third-generation mobile licences** from *euro*4.95 billion ($4.5 billion) to *euro*619m. It also raised their duration from 15 to 20 years, but will still levy a tax on revenues.

IBM said that profits in the third quarter were down by 19% to $1.6 billion compared with a year ago because of a fall in sales and “challenging” conditions after September 11th. **Intel** reported that profits in the third quarter were down by 96% to $106m, in line with expectations.

EMI, a British music group, said that Ken Berry, chief executive of its recorded-music arm, would leave, victim of the company's inability to improve profitability in America. He is to be replaced by Alain Levy, formerly chief executive of PolyGram.

See article: Face value: No more Mr Nice Guy

Banks lose out

Citigroup, an American financial-services giant, said that profits in the third quarter were down by 9% to $3.2 billion. It cited falling profits from investment and mounting insurance claims related to September 11th. **J.P. Morgan Chase** said that profits were down by 68% over the same period, to

$449m.

Merrill Lynch announced third quarter profits down by more than half to $422m, and said that it had shed 2,300 jobs to cut costs. More could follow. In particular, the Wall Street investment bank is expected to cut overseas retail brokerages.

Bank of America announced that profits had fallen by 54% to $841m in the third quarter compared with a year ago. Increased provisions for bad loans were partly to blame.

Commerzbank, Germany's fourth-biggest listed bank, announced a round of cost-cutting, including the loss of 3,400 employees, some 8.5% of the total. It also ruled out restarting merger talks until its house is in order.

Subsidies in the air

The European Commission said that, despite its firm line on state aid, it would allow Belgium's government to extend a loan of *euro*125m ($113m) to **Sabena**, the country's heavily indebted flag carrier. Ryanair, a leading low-cost airline, promised legal action to block the loan.

As estimates for the cost of rebuilding **Swissair** more than doubled to SFr3 billion ($1.8 billion), the Swiss government faced growing calls to stump up more cash to keep its flag-carrier in the air. But a bail-out may force the European Commission to take action: the Swiss have agreed to abide by EU competition rules.

Deutsche Börse is joining the bidding for **Liffe**. The London derivatives exchange is now being pursued by three European stock exchanges.

Highly competitive

Finland is the most competitive economy in the world, despite its rigid labour markets, powerful unions and high tax rates, according to the *Global Competitiveness Report* from the World Economic Forum. It displaces America from last year's top slot. Of the 75 countries included, Zimbabwe, experimenting with a more extreme form of socialism, languishes in last place.

The competition

Growth competitiveness index 2001, rank

Top five		Bottom five	
Finland	1	Bangladesh	71
United States	2	Paraguay	72
Canada	3	Nicaragua	73
Singapore	4	Nigeria	74
Australia	5	Zimbabwe	75

Source: World Economic Forum

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Fighting terrorism

A battle of nerves

Oct 18th 2001
From The Economist print edition

Scares or not, the advantage is shifting America's way

EPA

WHEN a danger is barely visible but can arrive hidden in an ordinary envelope and can have deadly effects that do not become apparent for days or weeks, nerves are bound to fray. The possibility that anthrax spores could be circulated through a building's ventilation system, affecting an unknown number of people, is bound to amplify the alarm and increase the dislocation produced by this bioterrorism, as buildings are evacuated and have to be decontaminated by spooky-looking men in protective clothing. Not surprisingly, therefore, attention this week switched back to the home front and away from Afghanistan. Yet the real risk is not in the envelopes. It is that worries about anthrax could blind people to the true balance of power between the terrorists and the West, and to the true battle that must be fought overseas.

Bioterrorism is certainly scary. But so is any terrorism. For all its novelty, the right question to ask about these bacterial attacks is whether they suggest that the West's opponents are stronger than we thought, or weaker. If those enemies' aim is to cause torment and chaos, then the use of anthrax has undoubtedly succeeded, though the most disturbing aspect of that success has been the role of hoaxes in amplifying the torment. The number of real cases of anthrax exposure has been small. And what does the torment and chaos achieve? If anything, it strengthens America's will rather than weakening it. It also confirms, on a daily basis, that the terrorists are a real and organised enemy, rather than a phantom, or just a group of 19 maniacs who died on September 11th.

Yet if—and it is of course a big if—anthrax is this organised enemy's best second weapon after the September 11th air crashes, then this tactic makes it look weak rather than strong. The enemy can tweak the tiger's tail, but it cannot hurt him very much. Bombs and missiles are raining down on Afghanistan, causing many deaths and much destruction, and meanwhile a few bacteria are flying around in America and possibly elsewhere, causing (so far) just one death (see article). It may be horrible, but it is far from awesome.

Perhaps other, deadlier weapons could be being held back for future use. In the nature of things, we cannot know for sure, and uncertainty is part of the terrorists' armoury. But the anthrax attack anyway casts light on a basic weakness of al-Qaeda's position. It is that any attack, big or small, is liable both to make America more determined to hit back and to make America's coalition of allies more cohesive, rather than less. The terrorists' interests would be better served by efforts to destabilise the governments in Islamic countries that are in, or acquiescent to, that coalition. Yet that option is a poor one too. Terror attacks in Pakistan, Saudi Arabia or Egypt, say, would be attacks on fellow Muslims and thus potentially disastrous to al-Qaeda's supposed cause.

A more plausible explanation of this tactic of bioterror is a more devious one. The attack may be weak, but it could also be clever. What Osama bin Laden and his fellow-terrorists would really welcome is a widening of America's military operation, for that could immediately start to break up the coalition of supporters, not only in the frontline states around Afghanistan and in the Arab world, but also in the western alliance. The three words conjured up most strongly by anthrax are Iraq, Saddam and Hussein. The terrorists may or may not have obtained their supplies from Iraq (see article). But they may well want America to think that Iraq is involved, and then to turn its bombs against Saddam Hussein. The happiest news of all for Mr bin Laden may have been the fact that several American politicians have blamed Iraq for these attacks and thus have begun to mutter again about a wider war. That possibility is as good a reason as any to put thoughts of Iraq to one side, and to concentrate on the task at hand.

Meanwhile, in Kabul and Kandahar

That is anyway the proper and best response to the anthrax attacks: they merely make it all the more important for the Taliban regime in Afghanistan to be removed from power, enabling American forces to surround, isolate and defeat Mr bin Laden and his troops (see article). Preferably, all these things should happen as quickly as possible—for their own sake, for the sake of the confidence of American citizens, and for the sake of the continued unity of the frontline coalition.

Information from Afghanistan is patchy at best, misleading at worst. So it is hard to tell how well the operation is proceeding. So far, civilian casualties and bombs falling in the wrong place have neither been a dominant feature of the campaign nor have they added greatly to popular hostility in Pakistan or the Gulf (see article). The Taliban have been weakened militarily and have been pushed back; they may soon withdraw altogether to Kandahar, and may well lose some western and northern towns to their various rivals. It ought soon to be possible to topple the Taliban altogether, and replace them.

But to what end, and with what? The first is easier to answer: without the Taliban, the chances of finding the al-Qaeda people in Afghanistan will increase. But the answer about who should follow the Taliban is harder, and will have a big effect on al-Qaeda's ability to hide. For two decades, Afghanistan's natural state has been war and anarchy. There is not, as in Bosnia, say, a set of governing institutions ready to be taken over. Just as important, there is no agreement on what a new government could or should look like, if those institutions are then to be built.

America has been slow to say what sort of government it thinks could be viable, and acceptable. Initially it may have wanted to avoid looking imperial; later, the reason was that the answer is hard to find. It requires support, or at least acquiescence, from the frontline states—Iran, Pakistan, Uzbekistan, Tajikistan—since otherwise one or more of them could destabilise a new regime by supplying money and arms to rival groups, as has often happened in the past. During the visit this week of Colin Powell, America's secretary of state, to Pakistan it became clear that America is contemplating a government built from a wide range of tribes and forces, even including moderate elements from the Taliban themselves.

Given the likelihood that, within a few days, control of the country will itself be shared by a lot of different groups, a broad-based government will surely be more viable than one built simply on one of the factions. The exiled 86-year-old king, Mohammed Zahir Shah, will play a role in securing that. But the factions will need further incentives to co-operate (and eventually perhaps to disarm). What will be needed is again a combination of things: the continued threat of American military power, backed by United Nations peacekeepers and institution-builders, and buttressed by the prospect of a lot of western money and of sustained western attention.

This is the direction in which things are moving. Anthrax may be unnerving for Americans, and for Europeans and others who fear they could be next. But for Afghans and for those who exploit that benighted country for their own purposes, American military power is much more unnerving still. With all due speed, as winter and Ramadan approach, that power must now roll further forward. The Taliban must go, and a new regime must replace them. Then Osama bin Laden's nerve will truly be tested.

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World economy

The risks are worsening

Oct 18th 2001
From The Economist print edition

The recession may well be deeper and longer than expected

SUPPOSE that the second-hand car you bought kept breaking down. Would you buy another from the same dealer? The same question might apply to economic forecasters. A year ago, most expected the American economy to grow by 3.5% in 2001. By early this year, they thought that a sharper slowdown, but still a soft landing, was likely; even in early September, almost all still ruled out a recession. Today, however, most believe that a recession was already under way before September 11th. When these same people confidently tell you that this recession will be short and mild—indeed, that it will be one of the mildest in 50 years—why would you believe them?

It is surely wishful thinking to hope that the bursting of one of the biggest financial bubbles in history, combined with the aftershocks from the most serious attack ever on America's soil, will be followed by the mildest recession in history. That is not to suggest that America will follow Japan with a decade of stagnation. America is in a healthier state than Japan was at the start of the 1990s. Yet there are good reasons to expect America's recession to be deeper and longer-lasting than most people now expect (see article). One is the sheer scale of investment and borrowing during the late 1990s. Another is the unusually synchronised nature of this global slowdown, with economies around the world sinking together. Indeed, it is possible that the world economy as a whole may be about to suffer its deepest downturn since the 1930s. That, in turn, increases the chances of a deeper recession in America.

Despite all this, some commentators fret that policymakers are in danger of easing monetary and fiscal policy by too much, so pushing up future inflation. *The Economist* has a reputation as an inflation hawk, so one might expect us to be in this camp. On the contrary. If anything, the risk to the global economy is not too much inflation, but too little. As a result of the sharp slowdown in demand, global excess capacity is by some measures at its greatest since the 1930s. That will push inflation lower over the next year, from its already low levels. One result is that growth in the G7 economies will be strikingly low in nominal terms, running at just above 1% in the current quarter. Sluggish nominal GDP growth means that it will take longer to purge the excesses of debt and overcapacity. Unexpectedly low inflation will squeeze profits, exacerbate debt problems and put strains on the financial system.

By some measures, in any case, monetary policy is not that loose in America. Using the Fed's favoured measure of inflation, the personal consumption expenditure deflator, real interest rates are still positive. Moreover, rate cuts have failed to ease overall financial conditions much. Such cuts work partly by pushing down the currency or propping up equity prices. Yet, despite the recovery of the past two weeks, share prices are 30% below their peak, and the dollar is stronger than at the start of the year. Heavily indebted firms and households may also be reluctant to borrow more even with lower rates.

American interest rates probably need to be cut further. Likewise, starting with the luxury of a budget surplus, America's government is right to be giving the economy a fiscal boost. To be effective, though, any fiscal easing must put money into the hands of those most likely to spend it. The exact shape of the fiscal package now being debated by Congress is therefore more important than its size.

Altogether now

At least American policymakers are trying hard to stave off a deep recession. The same is not always true elsewhere. Despite worsening deflation, the Bank of Japan beggars belief by arguing that further monetary easing could run the risk of triggering hyperinflation. The European Central Bank also failed to

cut interest rates last week. Wim Duisenberg, its president, argued unconvincingly that a cut in rates might dent consumer confidence by giving the impression of panic. And few European governments (except France's, and then only mildly) offer much hope of fiscal stimulus, arguing instead that there should be no relaxation of budgetary discipline.

Nor is there much hope from emerging economies, for many in Latin America and Asia are in recession already. Asian governments are at least using their fiscal tools more actively to boost their economies. Singapore's government has announced tax cuts and extra public spending equivalent to 7% of GDP. But many Latin American countries that are heavily dependent on foreign capital, notably Argentina, are actually having to raise interest rates and tighten fiscal policy.

Economies such as Japan and Europe, which still have room for monetary or fiscal easing, would be wise to use it. Low inflation and budgetary discipline are fine long-term goals, but they are best put aside when the world economy is flirting with such a deep recession.

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India and Pakistan

Remember Kashmir

Oct 18th 2001
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Will the “war on terror” extend to the Valley?

Get article background

EPA

AS SHELLING in Kashmir goes, it was not very heavy or sustained. But India's decision this week to fire across the line of control that separates the part of Kashmir it holds from that occupied by Pakistan breached a period of restraint that has lasted for almost a year. It may, some fear, be the precursor to a wider campaign against Pakistani outposts close to the line which, say the Indians, are being prepared for a fresh round of infiltration. Or it may simply have been an effective way of signalling to Colin Powell, the visiting American secretary of state, that while every eye is on Afghanistan, the problem in Kashmir should not be forgotten (see article).

The Indians are feeling nervous. Until September 11th, America had increasingly been tilting in their direction, while Pakistan, once a staunch ally, had been not just abandoned, but had become something close to a pariah state in American eyes. This was particularly evident last year, when President Clinton spent four days in India, and barely as many hours in military-ruled Pakistan. All that has now changed. Pakistan's help is needed against Osama bin Laden's al-Qaeda network and the Taliban, and Mr Powell infuriated the Indians this week by echoing Pakistani talk of Kashmir as “central” to relations between the two countries: India strongly insists that Pakistan-sponsored cross-border terrorism is equally important. To India, the fear is of a return to a cold war line-up, with America and Pakistan in one camp, and India and a vastly-diminished Russia in the other.

Yet Pakistan's leading position in the “war against terror” exposes deep complications. Pakistan's grand strategy for the past 20 years, pursued by the military men more or less independently of occasional civilian governments, has had two prongs. One has been to use Islam to encourage the formation of friendly governments, first the mujahideen, then the Taliban, in Afghanistan to secure its western flank. The second has been to bleed India white in Kashmir by encouraging extremist groups based on Pakistani soil to infiltrate the disputed state. The two groups of activists are linked, and Afghanistan has been a training ground for *jihadis* destined for Kashmir.

Pakistan now seems to have abandoned the first prong: but what of the second? India fears that a new wave of terrorists, no longer able to operate in Afghanistan, will end up in Kashmir. The war on terror, say the Indians, ought surely to be extended to a crackdown on groups similar to al-Qaeda who blow up civilians as well as soldiers in Indian-held Kashmir. If he genuinely wants progress in the talks he offers India, General Pervez Musharraf could do a lot to curtail this violence.

For its part, though, India also needs to do more. Its policing in Kashmir remains brutal, albeit in the face of severe provocation, and elections there are rigged. And it has repeatedly placed so many conditions on any talks about Kashmir that they never get started. It refuses, for instance, to allow the Kashmiris themselves any voice in such a process; earlier this year it blocked a start to possible negotiations by refusing Kashmiri leaders passports to visit Pakistan for prior discussions.

Indian officials like to argue that more autonomy for Kashmir would trigger break-away claims from across the country. Yet the most remarkable feature of the Indian political landscape has been the fading away of the separatist movements that even as late as the 1980s bulked so large. Precisely because India has been so successful, it could help itself in its argument with Pakistan by allowing more freedom

to Kashmir.

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Israel and the Palestinians

Peace out of war?

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The desperate scene and awkward actors that confront America in the Middle East

Reuters/AP

WAR has fashioned Israel. The wars against its unfriendly Arab neighbours of course, but also the world wars of the past century. The Balfour Declaration, a product of the first world war, pointed the way for a Jewish state in Palestine; the UN partition resolution at the end of the second world war divided the land; the Madrid conference, after the Gulf war, set the scene for Israeli-Palestinian talks. Is there a chance that the current war on terrorism, which has dramatically highlighted the turbulence and prejudice that the unfinished Israeli-Palestinian business creates in both the region and the wider Muslim world, could be the unlikely instrument that brings about a Middle Eastern peace that lasts?

President George Bush has signalled that peacemaking is on the agenda, and Tony Blair, in his meeting this week with Yasser Arafat, gave it urgency. Although Mr Bush has been vague in public, saying uncontroversially that a Palestinian state was part of “the vision” for the future—by now the concept of a state is generally accepted, though what sort of state is not agreed—it has come to be understood that, once the time is ripe, a political solution will be promoted along the general lines of Bill Clinton's proposals at Camp David last year.

Can Mr Bush succeed where Mr Clinton failed? It will be immensely hard. After the Palestinians' bitter year-long *intifada*, the times are much less favourable now than they were then. The stakes were dangerously raised this week with the assassination, by Palestinian gunmen bent on revenge for the killing of their own leader, of Rehavam Zeevi, an ultra-right Israeli minister who had just resigned from the government at the very prospect of fresh peace talks (see article). In the vengeful eye-for-an-eye mood of Israeli-Palestinian relations, Israelis will not have their minds on peace-building.

Their prime minister, Ariel Sharon, is under pressure from his right to retaliate forcefully against Mr Arafat and his men. Last year, Israel was led by Ehud Barak, a prime minister who was prepared to think the unthinkable for peace. Now, in Mr Sharon, Israel has a stubborn enemy of Palestinian aspirations who has always believed, at least until now, in striking first. Dedicated to the settler movement, Mr Sharon shares its possessive devotion to occupied land that must, if there is to be a viable Palestinian state, be an integral part of that state.

On the other side, too, things have grown more difficult. In last year's negotiations Mr Arafat showed a dismal lack of leadership: failing to seize his chances, or to convince his people that they should be seized. But now, with the *intifada* and his own abdication of policy-making, he is in an even weaker position to persuade Palestinians towards compromise. Much of his authority has slipped away to the militias, and his clumsy attempts to re-exert control, such as the violent incident last week when his policemen shot dead three students, have earned him deep contempt.

Banging heads together

Such is the unpromising material that an American peace-maker will face. Left to their own devices, the best that the Israelis and Palestinians can manage is a shaky ceasefire, observed more in the breaking than the keeping, vulnerable to acts of great violence by either side. And even with American help, the two are unlikely to be wheedled into making peace.

If achieving that peace is as important to the region, and to its relations with the West, as the evidence now suggests it to be, America may have to bang heads together, acting in a much more arbitrary way than it would choose to do if circumstances were different. At this stage, and with these actors, it has to make the weight of its influence felt. In return, it could eventually find the ungrateful Israelis and Palestinians grateful for being saved from themselves.

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About sponsorship

Russia and the Caucasus

Dangerous relations

Oct 18th 2001
From The Economist print edition

The battle in Afghanistan should not blind the West to the trouble brewing in the Caucasus

AS THE United States rallies its forces and friends for the fight against Osama bin Laden and his cronies, the terms of almost every other conflict on the planet, from the streets of Belfast to the mountains of the Balkans and the Horn of Africa, have changed. Parties to local quarrels—Palestinians and Israelis, Indians and Pakistanis, Slavs and ethnic Albanians in Macedonia, Armenians and Azeris—are under heavy American pressure to renounce violence, cut links with extremists in other countries and patch up their disputes.

In many places the drive to avoid distractions and “tidy up” could well prove beneficial. But in the Caucasus, particularly in Chechnya and in Georgia, the web of interlocking disputes is so dense, and the legacy of bitterness so heavy, that the world's preoccupation with Afghanistan is in danger of being misread by locals, with tragic results.

Like everywhere in the world, this lawless region—whose mountainous terrain is almost as difficult to control as that of Afghanistan—has felt the repercussions of the terrorist attacks on America. Because the most militant Chechens have links to an international network of Islamist violence, western opinion has tilted against their cause—and now seems more inclined to sympathise with Russia's effort to bring their independence movement to heel. Aslan Maskhadov, the Chechens' elected leader, has come under pressure from the West to sever ties with extremist comrades and to cut a deal with Russia. President Vladimir Putin may yet be interested in such a deal; but a powerful faction in the Russian armed forces has a stake in waging war indefinitely.

In Georgia, meanwhile, people are more nervous than ever that Russia may use its pragmatic new friendship with America—based on co-operation against the Taliban regime in Afghanistan—as a cover to meddle with impunity in its neighbours' affairs. Those fears have been stoked by furious verbal attacks on Georgia in the Russian media. President Edward Shevardnadze's government is accused of sheltering Chechen rebels in a region of northern Georgia adjacent to Chechnya. Now the separatist authorities in Abkhazia, a Russophile statelet in northwestern Georgia from which Mr Shevardnadze's forces and about 200,000 ethnic Georgians were driven out in 1993, claim to be fending off an invasion by Chechen and Georgian fighters. In Tbilisi, the Georgian capital, there has indeed been some hot-headed talk of recapturing Abkhazia. But cooler heads fear being sucked into a conflict that would give Russia's army a chance to intervene.

The rules should still apply

Mr Putin says he will respect Georgia's independence. Yet it is all too easy to imagine a scenario in which Russians, Georgians and Chechens are drawn into an escalating crisis that could well infect half a dozen more of the mini-states in the northern Caucasus, which are united by the Muslim faith but are sharply divided by language and ethnicity. If militant Islamists have gained a degree of influence in Chechnya, that is mainly because of despair, poverty and popular anger over Russia's brutal tactics there. Further conflict in the region would only enlarge the breeding-ground for extremism.

However distracted they may be by the fight against terrorism, western governments would do well to spare some energy for dousing the flames of war in the Caucasus. The message to all sides should be that such conflicts can be settled only on the basis of international law: that includes respect for territorial integrity, human rights and the right of refugees to return home. Russia and its neighbours

need to be reminded that a better relationship with the West still depends on it.

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Letters

Oct 18th 2001
From The Economist print edition

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Israel and the Palestinians

SIR – You minimise American guilt by dwelling on the relative reasonableness of its posture on Israel in the past few years ("The unblessed peacemaker", October 6th). This denies younger readers the background for grasping a fuller understanding of the problem. After the second world war, many of us were distraught at the treatment of the Jews by the Nazi regime, but a genuinely sympathetic America would have offered these victimised people a chunk of our own territory on which to build their nation, not someone else's homeland where they knew that they would never be welcome.

The multitudes of Palestinian children whom I watched playing in the debris of the refugee camps in 1953 are in their 50s now. Many are still forlornly waiting in these miserable camps, together with their children and grandchildren, waiting to return to ancestral property often only a few miles distant. With nothing better to look forward to, it is hardly surprising that throwing rocks and planting bombs may strike some as useful ways to give meaning to their lives.

Robert Browne
Teaneck, New Jersey

SIR – It is remarkable that you do not acknowledge the territorial rights of those 1m Palestinians driven from their homeland in 1947 and 1948, but that you make so much of the fact that those same Palestinians had a problem recognising the newly founded state of Israel until 1988. That the PLO did eventually recognise Israel is an enormous act of compromise and the finest example of peacemaking throughout this bloody conflict. We are still waiting for Israel to respond in kind.

James Aitken
Edinburgh

SIR – You dismiss the fundamental argument that America's support of Israel blackens its reputation in the Middle East by contending that since the UN sanctified the creation of Israel in 1947 on Palestinian land, it is right for America to support Israel. This makes as much sense as arguing that it was right to support Hitler's occupation of Czechoslovakia in 1938 because it was sanctioned by the powers of the day or colonialism because it was endorsed by European powers.

Stefan Benn
New York

Black-and–white eyes

SIR – Simon Longstaff's assertion (Letters, October 6th) that security systems identifying persons by their iris pattern could be foiled by the pigmentation-altering side-effects of some glaucoma treatments is made without knowledge of the information encoded in the iris. As the author of the iris-recognition algorithms (and the only person who knows how they work), I can affirm that an iris code is a mathematical description of pattern-phase information that is not affected by pigmentation changes. Moreover, iris imaging is done with black-and-white video cameras using infra-red illumination. All human pigmentation is based on melanin, so iris colour—and any possible change to it—is not even detected.

John Daugman
Cambridge University
Cambridge

The truth about Truman

SIR – You compare George Bush's lack of preparation for the presidency with that of Harry Truman (Lexington, September 22nd). In fact, Truman was quite well educated. He took night classes for two years at Kansas City Law School but mostly he was self-taught. He was especially widely read in history. In "Plain Speaking" by Merle Miller, Truman talks about Shakespeare, Plutarch's "Lives", the War of the Roses, Napoleon, Alexander the Great, Cicero, Benjamin Franklin, Marcus Aurelius and others. Dean Acheson describes an off-the-cuff private lecture Truman gave about Korea starting from 57BC. Truman himself recalls discussing the history of Central Asia and the Middle East from Genghis Khan to the ambitions of modern Russia.

You express a snob's disdain for "this inarticulate haberdasher from the heartland" because he was self-made and had no formal degree. Mr Bush earned a "gentleman's C" and talks with the help of an army of speechwriters. You say that Mr Bush is growing into the role. Talking about John Kennedy, Truman said that "the presidency will make a man out of any boy."

Dorothy Laurence
Szada, Hungary

Canada's response to terror

SIR – You rightly praise John Manley, our foreign minister, for his role in shaping Canada's response to the terrorist attacks of September 11th ("A new face to the fore", October 13th). Of more doubtful merit, however, is your claim that the Canadian response to the crisis has been "tepid". On the contrary, Canada's swift and comprehensive action compares favourably to any nation. The prime minister, Jean Chrétien, was among the first international leaders to respond in person to the attacks. He met Canadian reporters in the early afternoon of September 11th, and he insisted that the meeting be held in a public place, familiar to Canadians, so as to assure them that the business of government was proceeding.

You claim that a full meeting of cabinet to discuss the crisis did not take place until October 10th. This is untrue. Cabinet did meet in full on September 18th and has continued to meet on a weekly basis ever since. On September 28th, the prime minister asked Mr Manley to head a special cabinet committee on security to suggest additional measures and legislation as deemed necessary and appropriate in light of the events of September 11th. Since then, the committee has directed and funded the application of new security measures and advanced security technologies at all border points and in respect of immigrant and refugee screening. And, on October 15th, far-reaching new legislation was introduced that will strengthen substantially Canada's laws against terrorist activities and financing. On October 7th, the prime minister approved the largest international deployment of Canadian armed forces since the Korean war in support of the military action led by America and Britain against the al-Qaeda terrorist network and its Taliban protectors in Afghanistan.

Finally, it is unworthy of *The Economist* to take a cheap shot by paraphrasing the prime minister as having said that Canada "was behind the United States 'every step of the way' ". What he has said repeatedly is that we are "with" the United States every step of the way. Any fair-minded person would understand the distinction, as well as the underlying motive to distort the public record to satisfy a clear editorial preconception.

Françoise Ducros
Director of communications, Office of the prime minister
Ottawa

Writing off the economy

SIR – In your article on the R-word ("Rrrrrrrrrecession", October 6th) you blame journalists for writing America into an economic downturn. Your article, though brief, contributed significantly to the R-count by mentioning the word 11 times; more than you would find in an average newspaper even on a bad day.

Kilian Strauss

Amsterdam

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About sponsorship

Fighting terrorism

Nation-bruising, nation-building

Oct 18th 2001 | ISLAMABAD, LONDON AND WASHINGTON, DC
From The Economist print edition

AP

Destroying Taliban military targets is only the start. Next, Afghanistan will need a new government

WHICH are the most important of the multiple purposes of the American-led war effort in Afghanistan? Victoria Clarke, the Pentagon's chief spokeswoman, singled out two of them when she met reporters this week: “creating the conditions necessary for sustained anti-terrorist operations, and for the delivery of humanitarian aid.”

Other American officials seemed to have a different emphasis: punishing the Taliban regime for its insistence on hosting Osama bin Laden and his al-Qaeda network of terror, and forcing it out of office. Others still—notably Colin Powell, the secretary of state—were focusing on something different again, though related: securing agreement on an acceptable form of government after the Taliban's removal.

As the bombing of barracks, fuel dumps and troop concentrations went into its second week, the third front produced the most tangible signs of progress. After meeting Pakistan's President Pervez Musharraf, Mr Powell announced agreement on some basic principles. Afghanistan's future government would include elements of the Northern Alliance (the Tajik and Uzbek forces which are favoured by Russia but viewed with intense suspicion in Pakistan) as well as “repentant” elements of the Taliban. A seasoned State Department trouble-shooter, Richard Haass, was given the job of working with the exiled 86-year-old king, Mohammed Zahir Shah, and other interested parties to put together a government for all Afghans.

This faint consensus created a background against which the more immediate aim—getting rid of the Taliban—could be pursued. Before that, the American-led effort had faced an almost insoluble problem: its crucial ally, Pakistan, would probably have preferred the Taliban to hold on to power in Kabul rather than see a straight victory by the Northern Alliance.

As Mr Powell announced his diplomatic breakthrough, the alliance commanders encamped around Bagram air base, north of Kabul, acknowledged grudgingly that the Americans had finally begun to carry out air strikes on Taliban positions nearby. If and when Americans decide that the moment has come for a change of regime in the capital, their intervention in the Bagram area will become more spectacular. Elsewhere in Afghanistan the Americans, with some British help, seemed to be hitting whatever Taliban targets they could find as hard as possible—without, as of midweek, forcing the regime to abandon control of any big city.

In neighbouring Uzbekistan and Tajikistan, there was plenty of indication that Russia, at least, was doing its best to help the northern allies. Convoys of Soviet-era military hardware, including surface-to-air missiles, artillery, mortars, rifles and ammunition were trundling through the night to the Afghan border.

To what effect? Fighting was certainly raging on the outskirts of Mazar-i-Sharif, the regime's main northern stronghold. Its besiegers, and their international backers, insisted that the Taliban would not be able to hold on to it much longer. Tough battles were in progress for control of territory in the north-west. The anti-Taliban forces claimed to have disrupted communications between Herat, in the west, and Mazar-i-Sharif by taking the town of Chaghcharan.

“The combat power of the Taliban has been eviscerated,” insisted General Gregory Newbold of the Marine Corps at a Pentagon briefing on October 16th. But the following day the movement's reclusive spiritual leader, Mullah Mohammad Omar, declared in a defiant speech that “we will force to his knees and defeat the great infidel.” The message—apparently designed to show that the cleric is very much alive despite American attacks on his home base of Kandahar—was relayed to Taliban commanders by walkie-talkie.

“Nation-building” is suddenly looking useful

How much more progress the American-led onslaught on the Taliban will make depends as much on political factors as military ones. Although President George Bush had promised not to engage in nation-building, he is discovering that the war in Afghanistan cannot be won until his Afghan allies know what they are fighting for. Nor can many defections from the Taliban be expected until they know what they are defecting to. (There has been confusion over the loyalties of Wakil Ahmad Mutawakkil, the Taliban's foreign minister, who was said to have contacted the ex-king.)

So the machinery of nation-building has now shifted into high gear. Mr Haass, the new American point-man, will be working closely with Lakhdar Brahimi, an Algerian diplomat, who has been appointed to oversee the UN's humanitarian and political efforts in Afghanistan. Meanwhile the ex-king, the only figure capable of commanding allegiance across the country's many ethnic groups, sent a formal letter to the UN secretary-general asking for an international peace-keeping force to fill a post-Taliban vacuum. “In diplomatic time, this is going incredibly quickly,” says a western diplomat.

But is the pace fast enough, and can it be kept up on the cratered roads of Afghan politics? Although most of the important anti-Taliban players have accepted the idea of a “broad-based government” under the aegis of the ex-king, they do not agree on who should form it and how.

For most Pushtuns, who claim to be a majority and are certainly Afghanistan's largest ethnic group, the emerging bargain between the former monarch and the minority tribes of the Northern Alliance cedes too much power to the latter. Pir Sayed Ahmad Gailani, a religious and political leader with a following among Pushtun tribes, worries that victory by the Northern Alliance could bring “more chaos and bloodshed”. He objects to proposals for a “supreme council”, to have half its 120 members nominated by the king and the other half by the alliance. The council is supposed to convene a gathering of tribal leaders and other notables called a *Loya Jirga*, which in turn is to choose an interim government.

Despite this Pushtun grumbling, the hard fact is that the northern allies are so far the only coherent Afghan resistance to the Taliban. There is hopeful talk of defections from the Taliban's hard core of religious scholars, but no real sign of it.

The main Pushtun alternative to the Taliban is a rag-tag band of ex-mujahideen, who fought Soviet occupation in the 1980s and are now exiled largely in Peshawar, a Pakistani city on Afghanistan's frontier. They are far from looking like a government in exile, or even the Pushtun component of one. They have been conferring with an assortment of Pushtuns from inside Afghanistan proper, including tribal leaders, Taliban commanders and former mujahideen, with a view to fomenting a Pushtun uprising against the Taliban regime. But there are impediments, among them the probability that the American-led bombing campaign may, at least in the short term, increase Afghans' support for their government. “The US attack changed our whole plan, because now people are very angry,” says an ex-commander based in Peshawar. Even in alliance-controlled teritory, there is unhappiness among ordinary folk about the bombing.

For would-be nation-builders, both local and international, some fundamental problems must be overcome. The king has popular support, but no power; his retinue has too many fawning courtiers and too few competent technocrats, and he has had little contact with the country he left more than a quarter of a century ago. The Northern Alliance has some territory and may get more, but has elements with a history of atrocities and is distrusted by most Pushtuns. The Pushtuns have numbers on their side but, the king apart, no widely accepted leader and little military clout. If Afghanistan is to have peace, all these disparate claims must be reconciled.

The outside world, led presumably by the United Nations, will have a large hand in arranging this. It will

supply all the money and much of the expertise for rebuilding Afghanistan, but will have to do so without appearing to rob Afghans of control over their own destiny. Its influence may first be felt in the *Loya Jirga*, which may have to decide how much of Afghanistan's security and rehabilitation should be entrusted to outsiders. As the king's letter to the UN suggests, the peace might be kept temporarily by non-Afghan troops, possibly assembled from a coalition of moderate Islamic countries.

But how does all this play at America's Defence Department, where “anti-terrorist operations” are of great interest and nation-building is not? The biggest change in America's military tactics this week has been the introduction of the AC-130, a low-flying aircraft—much favoured by special forces—that can saturate large areas with automatic fire and hunt down targets that would be too elusive to spot with classic airborne reconnaissance. “This is the kind of weapon you would start to use when you had good intelligence about your enemy,” says Paul Beaver of Ashbourne Beaver, a defence consultancy. If AC-130s are swooping in by day, it is a reasonable bet that Black Hawk helicopters, another special-forces favourite, are being used by night.

In the first instance, these lethal machines may be used to hunt down Taliban forces and turn the military balance in favour of their foes. But they are also the kind of weapon that America would want to deploy against its ultimate target: the al-Qaeda terrorist network and its boss, Osama bin Laden. And although this enemy is maddeningly elusive, America's armed forces are undoubtedly far more concerned about this quarry than any other. While American strikes against al- Qaeda's empty training camps are easy to deride, the Pentagon could perhaps have secured useful information by using its eyes-in-the-sky to observe what happens after the strikes: who comes, in which vehicles, to inspect the damage, and where they go afterwards.

So the Pentagon's Ms Clarke may have reason to assert that progress is being made in creating the “conditions for sustained anti-terrorist operations”. The conditions for sustained good government in Afghanistan look much more elusive.

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America's aid drops

Pop Tarts in the dust

Oct 18th 2001 | KHOJA BAHOUDIN
From The Economist print edition

The tangled logistics of getting food to people

AP

Oh no, not strawberry jam again

AT FOUR in the morning on October 13th, thousands of ready-meals packed in yellow plastic wrappers were sprinkled over flat, parched land close to Khoja Bahoudin in north-eastern Afghanistan. Soon afterwards, troops from the army of the opposition Northern Alliance were out with their trucks gathering up the meals. “They are for us, from the Americans,” they yelled, firing over the heads of angry ordinary people who thought the aid was for them.

A little later, when western television crews appeared, the army beat a hasty retreat. Now families fanned out to pick up the meals, loading them on donkeys. Snipping open the packs, people discarded what they did not like. While some collected sackfuls of Pop Tart Toaster-Pastries or Herb Rice, packets of strawberry jam lay strewn across the blistering landscape.

Across Afghanistan, some 6m people depend on supplies delivered from outside. Most of this comes from aid agencies, which deliver what people really need: flour, oil, sugar, beans and blankets. But although deliveries continue in northern Afghanistan, they have been suspended in areas controlled by the Taliban. The UN has begun to talk of setting up safe corridors to allow its trucks to deliver aid. On October 17th, a group of aid agencies, including Oxfam and Christian Aid, appealed to America to stop the bombing to allow food through, because winter is approaching.

Meanwhile, officials from the World Food Programme, which has experience of dropping food aid in bulk in places such as southern Sudan, have begun to consider such drops in Afghanistan. Aid workers say that airdrops can work, but that organisation on the ground is necessary to prevent the food ending up in the hands of the strong and those with weapons. Even when food is distributed through local military commanders or those in charge of refugee camps, too much of it gets stolen.

Yet not everyone is unhappy with America's efforts. Outside Khoja Bahoudin, one man and his son were making a point of gathering packets of peanut butter, which they were stowing in their donkey's saddlebags. Asked why, the man smiled and said: “I like it.” Others ask, “When will they send more?”

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The Muslim reaction

Uneasier, but not yet explosive

Oct 18th 2001 | DUBAI AND ISLAMABAD
From The Economist print edition

Pictures of wounded civilians are hardening opinion against America

Reuters

Well done, so far

AS AMERICA'S bombing of Afghanistan intensifies, the nervous West looks first of all to see how Pakistan is reacting. So far, General Pervez Musharraf has weathered the war better than expected. The demonstrations have drawn thousands, not hundreds of thousands. They have been rowdiest where it matters least: in Quetta and Peshawar, capitals of frontier provinces, and in Karachi, the biggest commercial city, which is used to violence. Each Friday, when most Muslims go to the mosque to pray and to hear the imam preach, has been seen as a test of the regime's stability. The regime has passed every time. Meanwhile, General Musharraf's reshuffle of the army, as well as his visit from Colin Powell, America's secretary of state (see article), have both helped to shore him up.

On Monday, a general strike called by a coalition of religious parties to protest against Mr Powell's visit was spottily observed. In Islamabad, it seemed to be business as usual. In Peshawar, a Pushtun town close to the frontier, about 40% of shops were closed. Newspaper reports, on the other hand, present a different picture. One claimed that the strike completely shut down business in Karachi.

A Gallup poll of urban opinion, released on Monday, suggested that Pakistanis in the cities have conflicting feelings. A bare majority agree with General Musharraf's policy of co-operation with the United States. On the other hand, 83% say their sympathies are with the Taliban; only 3% say they are with America.

The unease has mutated, and could still grow virulent. The Taliban have begun to take the western press on tours of bombed villages and hospitals, and these pictures are also reaching Pakistan. The NGOs' claim that hundreds of thousands of people could die if aid deliveries are not allowed to resume will fan those worries. There is evidence that the demonstrations are beginning to attract elements beyond the *madrassa* students and religious zealots who were their earlier mainstay. It may be this that prompted Pakistan's foreign minister, Abdul Sattar, to say on October 14th that a long bombing campaign would cause “worry and concern”.

AP

In the Arab world, the hardening of sentiment, and increasing anxiety about the duration of the bombing, are much more obvious. In the Gulf, the first pictures of wounded Afghan babies have had tremendous impact: apparent proof that, as some mosque preachers have been saying, America is launching an all-out invasion of Afghanistan. Acceptance of a Palestinian state is soothing, but people want to see progress on the ground, and much more pressure on Israel. Increasingly, and despite the careful assurances of American and British leaders, ordinary Arabs see this as a war against Islam.

Yusef al-Qaradawi, an Egyptian tele-sheikh and cleric who is a star on the Al Jazeera television network, epitomises the moderate Arab view. He is scathing about the attack on Afghanistan, describing it as “the logic of the bully”. Fighting terrorism by waging a huge war, he says, means using the same logic as the terrorists, punishing the innocent for the crimes of a few. The way to fight, he argues, is with ideas, by showing the

way to a middle path in Islam and by trying to understand the psychology of terrorists.

Like most educated Muslims, Mr al-Qaradawi is dismissive of Osama bin Laden. “It is America that has created him,” he says, “turned him into a hero.” Yet, when asked if Mr bin Laden's call for *jihad* against America should be obeyed, he skirts the question: such a *jihad* need not necessarily be waged with arms, but by providing charity to the Afghans. He understands the motives of those who support America, but he suggests that, in the context of the four levels of action recognised in Islamic jurisprudence, collaboration with America should be considered *makruh*, or objectionable behaviour. In his view it is not *haram,*or forbidden behaviour, but many other clerics call it that.

Newspaper opinion in the Gulf is divided. The broadsheets try to explain America's policy, and some liberals have appealed to Arabs to ask themselves why their societies have bred this form of extremism. Most newspapers, however, lambast American policy, and increasingly worry that some other Arab country will be attacked next. A typical column from *Al Riyadh*, a Saudi daily, says that Arabs will not trust America as long as its official pronouncements remain contradictory: on the one hand, for example, claiming Syria's full co-operation in the anti-terror coalition, on the other including Syria on a list of countries that should be attacked.

America's conduct of the investigation has also drawn scorn. The names of the alleged perpetrators were at first confused, and some of them turned out to be alive and well in Saudi Arabia. Egypt's most popular TV commentator joked on October 16th that Mr bin Laden had so many “right-hand men” attributed to him that he made an odd sort of monster. Reports of abuse of Arabs in the United States and Europe continues to cause great offence. The general feeling is that if there is a clash of civilisations developing, the main culprit is the much-maligned “western media”.

American criticism of Al Jazeera as a platform for terrorists has also backfired. As the head of one think-tank in Abu Dhabi says, “When I see bin Laden's spokesman on TV, what I think is not, this is a great man, but what a stupid idiot.” The Bush administration has changed its tune now, and has started to talk to Al Jazeera. But the performance on October 16th of Condoleezza Rice, the national security adviser, was judged flat and mealy-mouthed.

Much depends on how long the American campaign continues. Some say, cynically, that people may grow used to it. Others say too much human suffering will create enormous problems. All agree that an American attack on any Arab country would provoke catastrophe.

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The Saudi connection

Awkward friends

Oct 18th 2001 | DUBAI
From The Economist print edition

A country with some explaining to do

SINCE its emergence in the 1930s, Saudi Arabia has balanced on four pillars: the authority of the ruling al-Saud family; the championing of puritan Islam; the riches of oil; and the unquestioning backing of American power. Last month's attack on America, and its aftermath, have shaken all four pillars, violently and at once.

At least eight of the kamikaze hijackers were Saudis, as is their alleged mastermind. This has raised questions about the nature of Saudi society as a breeding ground for Muslim extremism. Osama bin Laden, meanwhile, has succeeded in highlighting an issue that the country's rulers have preferred to keep dark: the presence of American forces in the kingdom.

The ruling family must explain to its subjects why it condones attacks on a fellow Muslim country which, until recently, enjoyed its generous backing. At the same time, it must explain to its western allies why it cannot show too much enthusiasm for America's war on terror. While risking the ire of both, the Saudis are faced with the loss of billions from falling oil prices, and tens of billions from the falling value of their investments in the West.

It is not easy to run a place that is part global filling station, part Islamic Vatican. Ever since the Gulf war, the Saudi royal family, under pressure from religious arch-conservatives at home, has increasingly felt the need to buy Islamist approval by funding, and encouraging the private financing of, Islamic causes, and by exporting religious zeal. Saudi money has sponsored the building of more than 1,600 mosques across the world in the past decade, as well as dozens of Islamic colleges and schools.

It is not easy to run a place that is part global filling station, part Islamic Vatican

The Saudis have also financed what they saw as Muslim liberation struggles in Kosovo, Palestine, Kashmir, Chechnya and elsewhere. For example, as much as $600m helped pay for the reconstruction of Bosnia. Some of this money undoubtedly ended up in the hands of groups such as Osama bin Laden's al-Qaeda.

The two trails leading to Mr bin Laden, ideological and financial, have now come under renewed scrutiny. It is increasingly clear that the bin Laden brand of religious extremism was incubated in the Saudi heartlands, above all the religious hostility to foreign intrusions into the abode of Islam. The money trail is more blurred. The ruling family itself cut ties with Mr bin Laden long ago, stripping him of citizenship in 1994. American officials, however, have fingered prominent Saudi businessmen for financing suspect charities. Much of the information disclosed appears to be years out of date. Nor is it clear that contributors to radical causes knew what their money would be used for, just as Irish-Americans may not always have known they were paying for the IRA.

But even if the charges do not stick, they certainly add to the Saudis' swelling store of ill-will towards the United States. Anti-American sentiment is now shared not only by religious extremists, but by ordinary Saudis. Mosque-goers in Riyadh were recently treated to a sermon describing American attacks on Afghanistan as “the most awful crime of the new century and a reflection of western crusader terrorism.”

Not surprisingly, the country's leaders feel compelled to ride public opinion by voicing disquiet with American policy and by snubbing western leaders such as Britain's Tony Blair, who was not invited to the kingdom during a tour of the region. Prince Nayef, the interior minister, said openly this week that while Saudi Arabia opposed terrorism, it did not approve of the American response. In typical Saudi fashion, however, overt unhappiness conceals a great deal of covert co-operation.

Diplomatic sources say that the Saudis are now responsive to the sharing of intelligence. American forces continue to use Saudi bases, even if not for direct action against Afghanistan. And the Saudi authorities have taken steps to tighten controls over bank transfers and charity funding. The tougher challenge, in the long run, will be confronting the virulence of the kingdom's own radical theology.

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War and drugs

Another powder trail

Oct 18th 2001 | GRAZ, KABUL AND TEHRAN
From The Economist print edition

The Taliban have another weapon: control of most of the world's heroin

EPA

Get article background

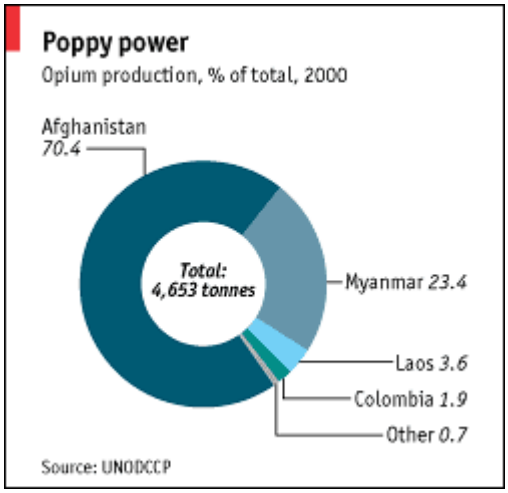
ON SEPTEMBER 10th, the day before the terrorist onslaught on New York, fresh opium was selling in the markets of Afghanistan for as much as $700 a kilo, the highest level for almost a decade. Two weeks later, prices on the streets of Jalalabad or Kandahar had tumbled as low as $100 a kilo. Since Afghan opium accounts for about 70% of the world's heroin production, western countries now fear that, besides all the other problems stemming from that benighted place, they could soon face a flood of cheap Afghan heroin.

In the 1990s, when other forms of farming fell victim to an endless round of internecine wars, Afghanistan greatly increased its cultivation of opium. In 1989, the country produced nearly 1,200 tonnes. A decade later, the harvest had almost quadrupled to an estimated 4,600 tonnes. But by June 2000, in a bid for respectability, the Taliban had started to work with the United Nations Office for Drug Control and Crime Prevention (UNODCCP), and banned the growing of opium. The ban slashed this year's harvest to a mere 185 tonnes, the lowest level in living memory and a 95% drop on the previous year. All that ended after September 11th, when the Taliban abruptly stopped co-operating with the UN.

By now only a few weeks of the autumn sowing season are left, and the American-led bombing campaign—particularly heavy around Kandahar, an important opium-growing region—will have disrupted the business. The ban, too, still remains officially in force. So it is hard to predict how big next spring's crop will be. But there are signs that the Afghan government is releasing on to the international market some of the vast stockpile of opium which has been built up during a series of bumper harvests. UN officials believe that 2,800 tonnes of opium, convertible into 280 tonnes of heroin, is in the hands of the Taliban, the al-Qaeda network of militant Islamists, and other Afghan and Pakistani drug lords.

On the wholesale market in Pakistan, this deadly harvest could be worth $1.4 billion. On the streets of London and Milan, processed into white powder, its ultimate value is estimated by Interpol and UN officials at between $40 billion and $80 billion. To put these figures in context, the retail turnover of the European heroin trade is estimated at $20 billion a year. UN officials say the current Afghan stockpile is enough to keep every addict in Europe supplied for three years. It is also enough to allow the Taliban and their allies to dominate the European, Russian and much of the Asian

market for another two years, if they can retain control of the stockpile.



The Taliban probably have several motives for releasing the stockpile now. Possibly they are selling off opium to buy weapons, or to build up their supply of hard currency. They may also want to compound the social problems of the western governments which are now their enemies. Whatever the motive, the risk for Europe is awful to contemplate.

War has boosted Afghanistan's position as the world's main supplier of heroin

Afghanistan's position as the world's main supplier of heroin has been reinforced by 20 years of almost continuous war. It is a country with very little arable land; only 2.6m of its 65m hectares (250,000 square miles) are cultivated. In 1979, when the Soviet Union sent in its army, nearly 85% of the population was dependent on the rural economy. But the anti-Soviet struggle, followed by civil strife, had a disastrous effect on agriculture. A third of the country's farms were abandoned, two-thirds of its villages were bombed, and much of the rural workforce was forced by poverty, dislocation and drought to seek refuge outside the country or in cities such as Kabul and Kandahar.

As the old subsistence economy gave way to a monetised one, opium emerged as one of the few commodities that could quickly be converted into American dollars—which could, in turn, be used to buy arms. Afghanistan's plunge into war also coincided with a drop in production in three other important opium-growing countries. Turkey, Iran and Pakistan all started enforcing strict drug-control laws and bans on opium-growing. This meant that just as opium production was rising in Afghanistan, external factors allowed the country to grab a bigger share of the world market.

For the first few years after they took power in 1996, the Taliban had no compunction about encouraging the planting of opium. Like most food crops, however, opium can grow only on land that is properly irrigated or fed by rain. According to UN officials, the current food shortage partly reflects a conscious decision by the regime to promote the cultivation of opium rather than wheat.

The new Silk Road

How does Afghan heroin reach western markets? Broadly speaking, there are two routes: one passing through Central Asia and Russia, the other through the Balkans.

Well before it reaches Western Europe—in Afghanistan itself, or else in Pakistan, Turkey or former Soviet states—the opium is converted into morphine and then into heroin. The “precursor” chemicals required for this process, such as acetic anhydride, are often diverted illegally from factories in Uzbekistan or Turkmenistan. In the ramshackle new states which until recently formed the soft underbelly of the Soviet Union, drug lords can rely both on lax laws and on the corruptibility of police and customs officers, whose wages are a pittance compared with the sums at stake in the narcotics business.

From these states, the lethal consignments—hidden in truckloads of raisins or walnuts, disguised as bags of flour, or else transported in rusting Soviet-era railway cars—take two different routes. The northern route follows the old Silk Road into Russia, the Baltic States, Poland, Ukraine and the Czech Republic. From there, it runs through Scandinavia, Germany and points farther west. The UNODCCP'S director, Pino Arlacchi, says that Russia's “new rich” are among the biggest potential growth markets for heroin-pushers.

Several other ex-Soviet republics, including Ukraine, Belarus and Lithuania, with good road and rail routes, have been described in American government reports as increasingly important conduits for heroin from Afghanistan. Meanwhile, the German authorities have been struggling to staunch the flow of drugs through Poland. In 1999, for example, 80% of all heroin stopped on Germany's borders was seized at the Polish frontier.

Police are particularly concerned by the arrival on the international market of a strain of high-grade narcotic known as Heroin No. 4, or white heroin, which is estimated to be at least 80% pure. Recent seizures in Germany, Turkey, Finland and Poland have all proved to be white heroin trans-shipped via Central Asia from Pakistan and Afghanistan.

The southern, or “Balkan”, route goes principally from Afghanistan to Turkmenistan, across the Caspian Sea, into the Caucasus, then into Turkey, from where the heroin is shipped to Albania and Italy. Other consignments cross Bulgaria and Macedonia in container lorries, finding their way to Serbia, Hungary and Austria. A second route goes through Albania, then across the Adriatic in speed-boats on nocturnal dashes to beaches on the eastern coast of Puglia, and then by motorway into Austria. A third route involves container vessels sailing from Constantza, on the Black Sea, to Turkey and on to Italy.

The one country that all drug traffickers try to avoid is Iran. Some 204 tonnes of opium and 29 tonnes of heroin and morphine were seized in Iran in 1999 by a combination of army battalions and police units deployed on the country's eastern and northern borders, accounting for 85% and 50% respectively of all seizures of opium and opium derivatives (heroin and morphine) in the world. (In Turkey, by contrast, only one-third of a tonne of opium was confiscated in the same year.) Hundreds of Iranian soldiers and policemen have been killed in gun battles with traffickers.

As new routes are established to link the mountains north of Kandahar with the streets of Dublin and Barcelona, a vital role is being played by crime syndicates from Eastern Europe—Ukraine in particular—and the Balkans. Throughout Western Europe, police report that whole sectors of criminal activity are being taken over by ethnic-Albanian syndicates trading on their success as drug-smugglers.

Crime syndicates from Eastern Europe and the Balkans play a vital role

These fraternities, whose origins may be in Albania, Kosovo, Macedonia or in the long-established Albanian communities of southern Italy, have no compunction about doing business with Serbian gangsters. They share with them the proceeds from drug- and gun-running, as well as the traffic in prostitutes from Ukraine, Romania and Moldova. According to police, ethnic-Albanian drug-running families are almost impossible to infiltrate because of the closeness of the family and clan structure and the difficulty of the language.

In Prague, Albanians are fighting turf wars to oust Ukrainians controlling the heroin trade, while in London Jamaican pimps—not known for their respect for women's rights—complain of Albanian violence towards the East European prostitutes they control. When police in Oslo made Norway's largest-ever heroin seizure, they discovered that former fighters from the Kosovo Liberation Army controlled the drug-distribution chain. Heroin-dealing in Switzerland is dominated by Albanians. This year, much of the money made went to buy arms for the rebels fighting in Macedonia and a strip of southern Serbia.

At the faceless, glass-fronted building in Vienna where UN officials try to keep tabs on this deadly traffic, more information seems to be available about prices in the dusty street markets of the Indian sub-continent than about dealings closer to home. But it is not hard to gather inklings, at least, of the web of connections which now links the bombed-out war zones of Afghanistan with ostensibly calm and prosperous places in Western Europe.

Less than an hour's drive from Vienna is the town of Graz, which serves as a sort of nodal point for connections to the Balkans. This year's October festival was a jolly, bucolic spectacle. But it was not difficult to spot, among the brass bands and folk-dancing, the furtive figures of heroin dealers from northern Albania, plying their trade with white-faced addicts.

Even these sad little transactions have consequences for places hundreds of miles away, says a senior UN police officer who helped to seize two truckloads of weapons—destined for the ethnic-Albanian rebels in Macedonia—at the border between Montenegro and Kosovo this year. He estimates that the anti-aircraft missiles, grenades and anti-tank rockets he captured were part of an arms deal worth around $4m. At least some of that was raised by selling, say, 20 kilos of heroin on the streets of Austria or Switzerland.

UN officials hold out some hope that the heroin market will tighten again once the Afghan stockpile disappears, especially if planting does not resume. The United States and its allies will try to persuade any post-Taliban regime to keep the ban in place. But in a wrecked country, in desperate need of funds, the addiction to opium money will be hard to break.

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The home front

Anthrax isn't contagious; anxiety is

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AP

The war in Afghanistan is going reasonably well. The war on the home front is not

Get article background

THE anthrax mailed to Tom Daschle, the leader of the Senate, is the first biological-weapons attack on any government in history. Biological weapons have been used before, but not directly against governments. Congress is the seat of sovereignty in America and the mailing of deadly spores—which might best be described as an assassination attempt on the head of the upper house—is a direct strike at the heart of the American government.

That says nothing, of course, about who did it. But the nature of the spores in Mr Daschle's office shows that whoever sent them seems to have had access to disturbingly sophisticated equipment. A bioterrorism expert at the Health Department said “there's been some attempt to collect it, perhaps refine it and perhaps make it more concentrated.” The FBI told senators that the anthrax was unusually pure and finely milled. One senator said it had been characterised as “weapons grade”.

This claim is disputed, but it is the stuff nightmares are made of. Relatively few organisations or states have the capacity to “weaponise” anthrax (though Iraq does, see article). A weapons-grade disease could also be used in missiles capable of vast destruction. The potency of the attack, as well as its target, takes the anthrax outbreak to a new level.

Certainly, it was potent enough that more than 30 people, mostly from Mr Daschle's staff, tested positive for exposure to the disease. Not all of the tests will be confirmed by subsequent analysis (initial tests throw up many “false positives”). No one on the Capitol has developed symptoms of the disease and the particular strain responds to antibiotics. Even so, the infection is easily the largest so far, and was not confined to Mr Daschle's office. Aides to Senator Russ Feingold also tested positive. Fearing that spores had infiltrated the Capitol's ventilation system (erroneously, it seems), the House of Representatives suspended its sitting for nearly a week; the Senate declined to copy, saying it would not bow to terrorism.

The attacks on the Capitol add to the complexity of the anthrax outbreak. The letter to Mr Daschle was similar to one sent to Tom Brokaw, an anchorman at NBC News in New York; his assistant who opened the letter has now developed the cutaneous form of the disease. The two letters had the same clumsy handwriting. Both contained references to Allah and proclaimed threats against America. Both bore the same postmark, Trenton, New Jersey, where postal workers are also being tested for anthrax.

These events are clearly connected. The outbreak in New York may also be linked with the first incidence of the disease, at the American Media building in Boca Raton, Florida, where it has killed one person and infected two others, one of whom has a full-blown version of the disease. The Centres of Disease Control say the strain of anthrax in Boca Raton was related to the one in New York (though probably not the more virulent strain in Washington). The spores probably got into the tabloid newspaper office also by mail. Two of the victims worked in the mail room and spores have been found in the local sorting office. But the opened mail was thrown away long before symptoms appeared, and the most suspicious package was a weird letter about a pop singer, Jennifer Lopez.

To make matters even more complicated, three other suspected cases have shown up. Anthrax has been found in the New York city offices of the state governor, George Pataki. No one seems to be infected. A seven-month-old boy taken to visit the newsroom of ABC News in New York came back with the cutaneous form of the disease. A suspicious letter sent from Malaysia to a Microsoft office in Nevada now seems not to have been toxic.

If there is a common thread connecting these disparate events, it is that all the attacks were on America's citadels of political power or on its means of communications—broadcast news and newspapers. The attacks of September 11th were also on America's commercial and military centres. And two hijackers rented apartments from the wife of the editor of an infected newspaper in Florida. Understandably, Osama bin Laden is under suspicion.

“Maybe it's a coincidence,” says the vice-president, Dick Cheney, “but I must say I'm a sceptic.” President Bush says “he wouldn't put it past” Mr bin Laden to have launched these attacks. The attorney-general, John Ashcroft, concurs: “we certainly cannot rule that out.” But there is no hard evidence.

If al-Qaeda were involved, it has changed the way it operates substantially. The organisation has not previously left messages at the moment of attack, such as the letters to Messrs Daschle and Brokaw. And the current anthrax attacks seem designed to spread fear rather than kill lots of people, unlike previous al-Qaeda actions. If the United States is facing a single enemy—still a big if—it comes from a many-headed monster.

The more intriguing question is what the attacks have achieved in terms of public confidence. If the aim was to destabilise America's war effort by turning public opinion against it, that has plainly failed. After September 11th, America saw one of the most remarkable about-turns in public opinion for decades. Confidence in the ability of the federal government to do the right thing roughly tripled, from around 20% of respondents last year to more than 60% now—a level last seen when Jack Kennedy was in the White House.

While people express trust in the government, they are hardly behaving confidently

The anthrax attacks, the first test of that trust, have not damaged it. According to a poll by the *Washington Post* and ABC News, 85% of respondents were satisfied with the way the anthrax attacks are being handled. Only 12% expressed dissatisfaction. Broader opinion-poll ratings of Mr Bush's performance and support for the war on terror remain stratospheric.

But while people express trust in the government, they are hardly behaving confidently. Even before the anthrax outbreak, the Conference Board's consumer confidence index plummeted 14% in September, the largest monthly drop since October 1990. Retail sales are also falling fast.

In a different category, the FBI has so far this month received almost 3,000 false alarms about anthrax or other dangerous agents. Most are no doubt from people genuinely worried. But some are not. This week saw the first indictment against a worker in Connecticut for a deliberate anthrax hoax. Some 100 birth-control clinics where abortions are performed have received envelopes with white powder inside, none of which contained anthrax. (This also raises suspicions that the real attacks could have been carried out by home-grown fanatics, such as right-wing militias, rather than Mr bin Laden.)

Testing times

Perhaps most worrying of all, the government, which has run the overseas part of its war with quiet efficiency, has looked shaky on the home front. So far the biological attacks have been relatively modest. There has been one death, four infections and around 40 cases of exposure—far from a full-scale biological terrorist attack. Even so, federal and public-health officials have provided inconsistent, contradictory and sometimes flatly wrong information.

The letter to Mr Daschle showed the problem. The anthrax in it was first said to be of manufactured potency, then a natural strain, then potent again. Links with Mr bin Laden were played up, then down, then up. On Thursday October 11th, the FBI issued a warning of imminent terrorist attacks, without giving specifics. It was not linked to anthrax. Different agencies have said different things. There has been no overall source of information (such as the Pentagon provides for the war in Afghanistan). Tom Ridge, the new head of the homeland defence agency, who is supposed to co-ordinate the government's efforts to combat terrorism at home, has been all but invisible.

Some confusion is inevitable. But the current disorganisation will surely affect future polling numbers about public confidence. And it also raises questions about overall preparedness. The president has asked for $1.5 billion from Congress to increase the government's stockpile of anthrax antibiotics and smallpox vaccines. That is a reminder of how small the stockpile is (2m shots of antibiotics; fewer doses of vaccine). Anthrax is not contagious, but if terrorists struck with an infectious disease, America would not be ready. Most big cities have only a handful of isolation wards. And so on.

America has around 40 counter-terrorism agencies and over 7,000 public-health offices. The anthrax attack has engaged only a few of them. But the chaos it has caused should be an alarm bell to the whole country.

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The Iraqi connection

Prime suspect

Oct 18th 2001 | WASHINGTON, DC
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America is looking for a master poisoner. Enter Saddam

Get article background

Reuters

Oops. Sorry

THERE is no evidence linking Iraq to al-Qaeda's attacks on September 11th. That was the message from the administration after the assaults on the Pentagon and the World Trade Centre. But American politicians have been much quicker to point to shreds of circumstantial evidence that may link Saddam Hussein to the anthrax attacks.

The most important is the nature of the anthrax spores found at Senator Tom Daschle's office in Washington. They were described by the FBI as “highly potent”, even “weapons grade”. That has since been questioned, but processing anthrax is technically demanding. For the anthrax to infect a victim, the spores must be light enough to be breathed in, but large enough to lodge in the lungs. The tolerances involved are just a few microns.

Such a process could not be carried out in a cave, or a Florida hotel room. Only a few countries have the capacity to weaponise anthrax. Iraq's stockpiles are known from reports by United Nations weapons inspectors, just before they were thrown out of the country.

The link between Iraq and al-Qaeda is more tenuous. Last year, one of the hijackers of September 11th, Muhammad Atta, had two secret meetings in Prague with an Iraqi intelligence agent, Ahmed Samir Ahani. American intelligence officials think that at one of the meetings, Mr Ahani gave Mr Atta a package. Mr Ahani was thrown out of the Czech Republic for “activities incompatible with his diplomatic status”. A former chief of the UN arms inspectors, Richard Butler, claims there is a credible report that Iraq may have given anthrax to the terrorists.

Lastly, there is a pattern of behaviour that may link Mr Hussein to al-Qaeda indirectly, through Iraq's links with Sudan, once Osama bin Laden's base. In “Study of Revenge” (American Enterprise Institute, 2000), Laurie Mylroie claims that preparations for the bombings on the American embassies in East Africa moved in virtual lockstep with Iraq's efforts to throw Mr Butler and the weapons inspectors out of the country. Mr Butler left on August 4th 1998, just three days before the embassy bombings.

Hardly proof of guilt. But this week George Bush wrote to Mr Hussein. “Your country,” the letter runs, “will pay a terrible price if you order unconscionable acts.”

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Security v liberty

The battle in Congress

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It should end soon. But has it been thorough enough?

EPA

Daschle, in the firing line

THE dire news about anthrax within the Capitol may have sped up the progress of George Bush's anti-terrorist law. The legislation had been bogged down in conference, with politicians struggling to reconcile differences between the Senate and House bills. But as *The Economist* went to press, a deal seemed to have been brokered. It would impose a provision ensuring that the bill's new surveillance powers expire in four years, as the House wanted. But, at the insistence of Tom Daschle, the Senate majority leader, it would also deal with money-laundering.

Some form of law will now probably arrive on the president's desk for signing by November 1st. Congress has been under intense pressure to act from both the White House and public opinion.

The underlying law is intended to expand the federal government's powers to investigate, detain and deport people who it suspects are linked to terrorist activity and other crimes. Part of the bill simply involves updating laws for the age of mobile telephones and easy travel. It allows investigators to put wiretaps on a person rather than a particular phone; and to keep listening if a suspect moves from one jurisdiction to another.

More controversially, the bill shifts the focus of investigations from responding to crimes to trying to prevent them. It makes it easier for the FBI to share grand-jury and wiretap transcripts with intelligence agencies. “We cannot continue to use critical information only in a criminal trial,” says Bob Graham, chairman of the Senate select intelligence committee.

In a country that was founded on the idea of individual freedom, any increase in government power is bound to cause questions. Jesse Jackson's jibe about Mr Bush creating a “police state” may be just another example of his growing irrelevance. But a broader coalition of critics, ranging from the American Civil Liberties Union to the Cato Institute, have come up with a plethora of complaints, most notably that the law has been rammed through with undue haste; and that it sacrifices freedom without enhancing security.

The first point is hard to deny. The bill has been whipped through the two chambers at a blistering pace, with some members biting their tongues for fear of appearing unpatriotic. The Republican leadership made the House vote on a 175-page bill that had been written only the night before and that few (if any) members had had time to read properly. Only one senator, Russell Feingold, a Wisconsin Democrat, asked any really hard questions.

On the other hand, the legislature has singularly refused to cave in to all the demands made by the Justice Department, which has had to give up several of its hobby-horses—most notably, the power to detain some suspects indefinitely (this was reduced to seven days). The House's sensible suggestion that the law have a “sunset clause”, requiring it to be passed again in four years' time, is another change.

Meanwhile, the perils of congressional sluggishness have been shown by another subject which involves fewer questions of liberty but should make America much safer: airline security. The Senate passed a law rapidly, but an important component—making the 28,000 security workers in airports federal

employees—has met with stiff opposition from both the House of Representatives and the White House.

Republicans argue that turning security workers into federal employees will make them more difficult to sack. The administration has undertaken a few cosmetic attempts to strengthen security at airports by asking the National Guard to stand around looking butch. But the current system of awarding security contracts to the lowest bidder means that the vital work of checking passengers and bags is still done by a rag-tag army of poorly trained, poorly paid people. Until this is changed, the United States remains pathetically vulnerable to another spectacular terrorist attack.

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Terrorism and civil liberties

The tricky balance

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How other countries do it

AS CONGRESS wonders how to balance security and liberty, it might care to take a look abroad. Broadly speaking, other countries' security laws get tougher the farther you travel away from the Anglo-Saxon mould.

Britain's troubles in Northern Ireland have left its government with broad powers of arrest and detention; but these are balanced by a long tradition of civil liberties and a dislike for identity cards. Germany is tough on political extremists, because of its Nazi past and a struggle with left-wing terrorism in the 1970s, but it is tolerant towards most groups claiming a religious basis, such as Islamic fundamentalists (not Scientologists, though). Germans have to carry identity cards, but they enjoy strict laws preventing government agencies from passing on personal data.

In France, Spain and Italy, the tentacles of power reach wider. Failing to produce an identity card if you are checked in the street can result in a visit to the local police station, especially if you happen to look foreign. Even when tracking down common criminals, investigating magistrates, working with the police, have far-reaching powers to tap telephones, order searches, look into bank accounts and put suspects behind bars without a charge—in France, for up to four years. French journalists working on stories about terrorism and corruption have been detained by the police. The Spanish secret service has monitored telephone calls by politicians, and even by the king.

In Japan, the balance tilts even further away from civil liberties. Japanese police have wide powers of arrest and of interrogation. Maybe that is why only 1% of defendants in criminal cases are acquitted. People have to register their addresses with the local authorities (which, until a few years ago, collected fingerprints from all foreign residents). The government's powers to seize assets were increased after the nerve-gas attack by the Aum Shinrikyo sect in 1995.

Like America's, most governments now want more powers. Britain's Human Rights Act is being reviewed. Germany is likely to scrap the special status enjoyed by religious groups, and to relax its privacy laws. In Spain and France, search powers are likely to be expanded still further. Only the Japanese will see no real change: with domestic security already so tight, the government is working out how to let its army go abroad.

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Louis Farrakhan

Back on form

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From The Economist print edition

Why George Bush is a liar, whoremonger, lesbian, pimp and hustler

AP

Still on the warpath

FOR a time it seemed that September 11th might have had a soothing effect on the troubled soul of Louis Farrakhan. The Nation of Islam's leader praised New York's firefighters and policemen, called America the “greatest nation ever”, and said that the massacre had united all “the children of Abraham—Muslims, Christians and Jews” as brothers and sisters.

Now the old troublemaker is back on form. In a sermon on October 16th, commemorating the sixth anniversary of the Million Man March (the 1995 black-pride rally he led on the Washington Mall), Mr Farrakhan pinned the blame for the attacks of September 11th on the “liars, whoremongers, lesbians, pimps and hustlers” who have led American society and foreign policy astray and thereby courted divine retribution.

This has echoes of Jerry Falwell (who spotted the obvious link between suicidal terrorists and gay promiscuity soon after the attacks). However, unlike the historically-limited Christian fundamentalist, Mr Farrakhan sees the war on terrorism as a continuation of a long history of western aggression against Islam that dates back to the Crusades.

Mr Farrakhan has long been the Howard Stern of black politics. His creed once held that white people were created by a mad scientist named Yacub. He has called Judaism the “synagogue of Satan” and Hitler a “great man”. In his sermon he neatly blended science fiction and treason, boasting how he had once been able to warn Muammar Qaddafi of an American attack because an unidentified flying object had earlier carried him to a city in the sky where the late Elijah Muhammad had revealed to him a plot by Ronald Reagan.

What is he trying to do? Most Arab-Americans are Christians. Many Muslims are black—and the Nation of Islam is, alas, one of the best-known black Muslim groups. Mr Farrakhan seems to be making a pitch for the growing number of non-black American Muslims who have not previously fallen for his bow-tie and buzz-cut version of the Koran. Whatever the merits of his organisation—and it does help some poor people who live in city slums—send a prayer of your choice that he does not succeed.

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New York politics

To run is to lose

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Big Apple, big election, big mess

NEW YORK'S Democrats used to boast one of the more brutal party machines in the country. Nowadays they can't even hold an election. On October 11th, after the polls had closed in the run-off to choose their candidate for the mayor's race, it appeared that the city's public advocate, Mark Green, had clearly, if narrowly, beaten the Bronx borough president, Fernando Ferrer, who duly gave a generous and dignified concession speech. Two days later, it emerged that thousands of votes had been double-counted, and the election was up in the air.

The city's election board, which is administered jointly by the Republicans and the Democrats and is something of a patronage racket, needs at least two weeks to conduct an official recount. Although it is widely expected that Mr Green will still win, and go on to face the Republicans' Michael Bloomberg, cries of indignation fill the air. Mr Ferrer has withdrawn his concession. One of his black supporters, the Reverend Al Sharpton, is crying racism (does he ever cry anything else?). Federal lawsuits are threatened; confusion reigns.

As in the Florida mess in last year's presidential election, the breakdown in New York's voting mechanism did not come without warning. In the presidential election the machines in one Brooklyn precinct broke down, and voters had to crouch on the polling-station floor using pencils to scribble their choices on to emergency paper ballots that were then haphazardly stuffed into boxes. Voters who saw fit to complain were told to “go file a lawsuit”. Plenty of them might have done so if the voting had been closer.

This time, the problem was even more eyebrow-raising. Each precinct's voting numbers are collected by the New York City Police Department, which reports them to the Associated Press (why these two organisations have become returning officers defies explanation). The Associated Press says the police gave it the wrong numbers. The police are keeping mum. Conspiracy theorists may note that the police union endorsed Mr Green.

In theory, since both Mr Green and Mr Ferrer belong to the same party, the row can be kept below Floridian proportions. Some head-scratching Democrats have begun to rally around Mr Green. But others talk of keeping up the struggle—with possibly dramatic consequences.

Mr Ferrer had won the support of the powerful unions that represent the city's teachers, its municipal workers and its hospital workers. This surprised Mr Green, who had expected the unions to be on his side. Their endorsements may not have brought in many votes for Mr Ferrer; ever since September 11th, New Yorkers have been worried that the city's expenditure (and its taxes) will have to rise, and do not want wage demands from big unions to push the taxes up even higher. But now the unions are talking to the Republicans' Mr Bloomberg about the possibility of switching their support to him.

That still looks unlikely. But both Mr Bloomberg and his fellow Republican, Rudy Giuliani have had a merry time, soberly condemning the shenanigans in the Democrat camp and calling for radical reform. The Republicans may yet retain the mayoralty in a city where there are four times as many Democrats.

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Alaska's oil

How much would it really help?

Oct 18th 2001 | SEATTLE
From The Economist print edition

Hugely, says the oil industry. Not much, reply the caribou

IT COVERS 20m acres of north-eastern Alaska. It ranges from flat coastal plain to 9,000-foot peaks. Much of it teems with wildlife: caribou, Arctic lynx and, in the summer, 95 species of migratory birds. But when the boundaries of the Arctic National Wildlife Refuge (ANWR) were drawn, in the 1970s, part of it was set aside for oil and gas exploration; it is reckoned to hold anywhere between 4 billion and 12 billion barrels of oil. Which is why for 30 years there has been a ferocious battle between greens who want the ANWR left alone and oil men who want to drill in it.

At the moment, the greens feel a bit like the doomed Spartans at Thermopylae. Earlier this year, with claims that the price of petrol might, horror, rise above $2 a gallon, and an ex-oil man newly in the White House, the pressure to allow drilling rose sharply. The greens' spirits recovered when the Democrats took control of the Senate in May, and the chairmanship of its Energy and Natural Resources Committee passed into the hands of environment-friendly Jeff Bingaman of New Mexico, and a cooling economy brought the petrol price down to about $1.25 a gallon. But then came September 11th.

Afghanistan is not an oil producer, but plenty of Muslim countries worried about the bombing of Afghanistan are. What if they put the squeeze on? Open up Alaska's oil, came the cry.

Early in October even Mr Bingaman's energy committee seemed on the verge of proposing a bill that would allow drilling in the ANWR (the Republican-controlled House of Representatives has already approved a similar measure). But on October 9th Tom Daschle, the Senate majority leader, persuaded Mr Bingaman to halt work on the energy bill. The Republicans protested vehemently, led by Frank Murkowski, an Alaskan senator who has long championed drilling in the ANWR. Mr Daschle wants to bottle up the energy bill, says Mr Murkowski, because he knows he would lose a vote on the Senate floor. The Republicans are now working to force the bill out of the energy committee and collect enough votes to override a filibuster.

Now the argument has turned to the question of how much difference a licence to drill might make. Mr Murkowski says a crash drilling programme could begin to bring up oil within two years. Others say it would take a decade to explore, map and finally drill into the oil deposits. And even then the flow would not be huge—perhaps 100,000 barrels a day when production begins (less than 1% of America's current daily consumption). A relative drop in the bucket, say the greens—and at the cost of damaging a natural wonder.

Yet the amount of oil sitting in the ANWR is hardly inconsequential. Alaska's North Slope oilfields have produced 13 billion barrels since 1973, with another 3 billion left. Alaska already accounts for about a fifth of all domestic production. And tapping the ANWR's oil would keep exploration dollars in the United States, rather than letting them slip off to the Caspian.

Compromise seems impossible. The greens want to keep a pristine nature reserve, and despite the industry's claim that it will leave only a “small footprint” the fact is that even modern high-tech oil drilling remains a pretty messy business. Anyway, the matter has now taken on, for both sides, the passion of a theological debate.

It looks as if Mr Daschle may be able to hold off a vote on the subject, in part by backing a plan to build a natural-gas pipeline for gas now stored underground in Alaska's existing oilfields. And some of the oil lobby's arguments may work against it. If Mr Murkowski is right, and the oil in the ANWR can be tapped quickly, then its value as a strategic reserve is even greater. Left untouched now, it could be swiftly brought up in a genuine emergency.

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The threat from behind

Manure happens

Oct 18th 2001 | IOWA COUNTY, WISCONSIN
From The Economist print edition

America's Dairyland, up to its knees

AP

The queue at the restroom

DICK GORDER is a dairy farmer, and he is sick of talking cow dung with politicians. “I'm about manured out,” he says, wiping the blood from his hands after helping the birth of a calf; “I thought I'd had enough of studying manure regulations.” Yet Mr Gorder, who is on the board of the state's Farm Bureau, is still knee-deep in the manure debate. Each day livestock in Wisconsin—America's Dairyland, as it calls itself—produces enough manure to fill the 76,000-seat football stadium in the state's capital, Madison. But the state wants to limit the ecological impact of these cow pies.

Wisconsin's lakes and streams have too much phosphorus in them, caused by manure trickling in from nearby farms. Although this phosphorus does not seem to hurt humans, it causes unsightly algae blooms in lakes which can kill fish. Farmers are reluctant to stop spreading manure on their land, since it replaces nutrients depleted by crops. Chemical fertilisers can do that too, and without raising phosphorus levels, but they cost more—and leave the farmers still stuck with their manure.

What to do with the excess poo? At the moment, only dairy farmers with more than 710 cows need to get a state document saying that their manure is not contaminating nearby rivers and lakes. Attempts by federal regulators to lower the threshold, so as to include some smaller dairy farms, have run into strong resistance from farmers who fear the costs. Some add that the consequent explosion in manure-related paperwork could bog down the enforcement agencies, leaving other environmental problems unattended.

Researchers at the University of Wisconsin are looking at new ways to solve the problem. One idea is to reduce the amount of phosphorus in cows' food—and thus in the manure they produce—without affecting their milk production. Another is to plant phosphorus-hungry plants to guard the lakes and streams. It is by no means clear that Wisconsin's cow-friendly legislature will order tougher manure rules when it takes up the matter this winter. But the debate will be pleasantly noisome.

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Lexington

A general who paints

Oct 18th 2001
From The Economist print edition

Colin Powell wants to redraw the world. Does his boss see the same picture?

ON SEPTEMBER 10th, *Time* splashed across its cover the question: "Where have you gone, Colin Powell?" Ever since, America's secretary of state has been ubiquitous. This week, he travelled to Pakistan and India before heading off to China to join Presidents George Bush, Vladimir Putin, Jiang Zemin and others at the Asia-Pacific Economic Co-operation forum in Shanghai. This meeting—the first such grand get-together since September 11th—is nominally about trade and economics; but its real aim will be to consolidate the eastern wing of the anti-terror coalition.

To his supporters, Mr Powell's attendance is the latest example of a pervasive presence that amply answers the doubts about his effectiveness in *Time's* mocking question. But to his critics—inside the administration, as well as outside—the visit is troubling. By going to China to talk about security, the secretary of state confirms the two main charges they have long levelled at him: that he likes alliances as ends in themselves, even if they tie America's hands; and that his conciliatory approach to China ignores the longer-term challenge that country poses to America. To the critics, his current ubiquity is either a distraction (if temporary) or a disaster (if he really does set policy).

So what is Mr Powell up to? His role has changed dramatically since September 11th, but not quite in the way most people think. The first nine months of the Bush administration had been an almost unbroken sequence of disappointments for Mr Powell. He said he would try to negotiate an anti-proliferation deal with North Korea. Mr Bush scotched the idea. He proposed changing the international sanctions regime against Iraq. Russia scuppered the plan. Without giving its allies any real notice, the administration said it would reject five treaties, including the Kyoto accords, the Anti-Ballistic Missile treaty and a draft protocol to strengthen the biological-weapons convention.

The differences between Mr Powell and his colleagues were less about ends (he too dislikes the Kyoto deal and supports the missile-defence plans restricted by the ABM treaty) than about means. He is a multilateralist, focusing on opportunities for American diplomacy. The others—Vice-President Dick Cheney, the defence secretary, Donald Rumsfeld, and the national security adviser, Condoleezza Rice—were more unilateralist, concentrating on America's need to defend itself.

Mr Powell's differences with his colleagues were less about ends than about means

Paradoxically, the sudden appearance of a new threat to America's security, which you might have

expected to strengthen the unilateralists' case, has actually pushed them closer to Mr Powell. The administration's response was to set about creating the widest possible coalition. Its campaign against terrorists has pointedly included diplomatic and economic pressure. It has confined the immediate military targets to al-Qaeda and the Taliban. It has quietly abandoned its earlier hostility to “nation-building”, and started to cobble together an alliance of all anti-Taliban forces, including some potential ex-Talibanites, to provide a new government for Afghanistan. And it has deferred, at least for the moment, a decision on whether to try to overthrow Iraq's Saddam Hussein as a sponsor of terror.

No one knows exactly how these decisions were made. Mr Powell sits on the war council along with Mr Rumsfeld and Ms Rice. It seems to be a forum in which the president has the last word and Mr Cheney the next-to-last. Whatever the process, though, Mr Powell has reason for satisfaction. It is hard to imagine that the outcome, so far, would have been very different had he been making all the decisions himself.

But the Shanghai summit could prove the high-water mark of Mr Powell's influence. As the war in Afghanistan grinds on, the trade-offs needed to preserve the coalition will surely grow (so far, there have been surprisingly few). If military action widens, and especially if it brings in Iraq, Mr Powell may again find himself in the minority. And differences are starting to emerge about the wider implications of the war for America's role in the world—differences that could set Mr Powell not just against his critics but perhaps against Mr Bush too.

Mr Powell is already looking beyond the war, towards new geopolitical patterns

For the president, making war on terror is a world-defining idea in itself: “It will be the focus of my administration from now on.” For Mr Powell, it is not. He is already looking beyond the war, in the hope of creating a new geopolitical pattern. This week he travelled to Pakistan and India in an attempt, among other things, to move towards negotiations over Kashmir. Last week the administration said it would support the creation of a Palestinian state, with at least a foothold in Jerusalem, if the Palestinians and Israelis would talk to each other again. In both cases, the chances of success may be slim. But Mr Powell is right to suppose that the war on terror has altered the odds a little—for instance, by putting India and Pakistan on the same side of a major conflict for the first time in living memory.

And Mr Powell's eyes range beyond Palestine and Kashmir. He hopes that the anti-terror war can change America's relations with both Russia and China. Mr Putin seems to have decided that Russia's help in dealing with terrorism could be the start of closer ties with the West. China's leader does not go that far, but the Shanghai summit may show whether he is willing at least to reduce some of the tensions across the Pacific.

This is ambitious stuff. The idea of so radically redrawing the geopolitical map has a challenging freshness. But it will bring renewed attacks on Mr Powell from his critics. They are sceptical about the possibility of really improving relations with China. Mr Rumsfeld does not want Russia's new friendliness to hamper the creation of an anti-missile system. And time is pressing on that front: if the administration wants to scrap or blur the treaty banning an anti-missile shield, it probably needs to act this year. The next few weeks may test how deeply the war on terror has transformed American foreign policy—and whether it has permanently transformed Mr Powell's role in the administration.

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Argentina

Calling for change—but in which direction?

Oct 18th 2001 | BUENOS AIRES
From The Economist print edition

AP

After years of recession and now austerity, voters such as the job-seekers above have shown their dislike of the government—and of politicians as a class

Get article background

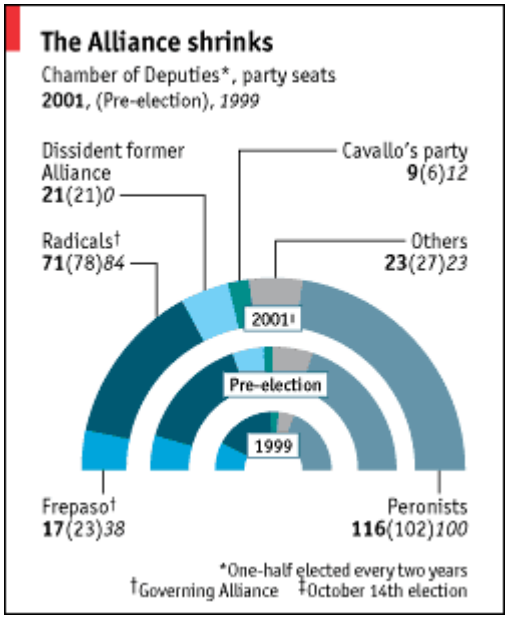
ONE work selling well this month in Argentine bookshops was a political essay entitled “I hate you, politician”. True, it seems: nearly half the electorate did not vote for any candidate in the congressional elections of October 14th. Not that that helped President Fernando de la Rua, and his battered Alliance. As expected, the opposition Peronists emerged dominant (though not a majority) in both houses of Congress. And Alliance politicos are calling for “a change of economic model”. Translation: sack Domingo Cavallo, Mr de la Rua's economy minister since March.

Faced by a drying-up of credit and an economy in its fourth year of recession, Mr Cavallo is trying to impose drastic austerity to balance the budget; not least, cuts of up to 13% in public-sector wages and pensions. To officials, this is the only way to stave off default on Argentina's $128 billion of public foreign debt, and keep alive the holy cow of Argentine economics, the rigid currency-board system which pegs the peso, at par, to the dollar.

Mr de la Rua acknowledges that “many things should change”. But these are unlikely to include Mr Cavallo—at least, not soon. Nor is the austerity policy set to vary, though the government is working on some sweeteners in the form of tax and welfare changes. “There are no other roads out of the economic crisis,” says Chrystian Colombo, Mr de la Rua's cabinet chief.

Officials are counting on Argentines' fear of instability, economic and political, to see the government through to the end of Mr de la Rua's term in December 2003. And indeed, rather than back radical alternatives, 19% of the electorate cast blank or spoilt ballots, or, though voting is required by law, simply stayed at home. Elisa Carrio, an ex-member of Mr de la Rua's Radical party, had hoped to use the election as a launch-pad for a populist bid for the presidency. But her new Argentines for a Republic of Equals group won no extra seats in the lower house, though it did, just, get a Senate seat. Small left-wing parties picked up only two more

lower-house seats.



Secondly, though the Peronists could make life impossible for Mr de la Rua, and force him to step down early, as happened in 1989 to Raul Alfonsin, an earlier Radical president, they show no signs of wanting to do so. That is partly because they are leaderless. Carlos Menem, president for a decade until 1999, is under house arrest, on corruption charges. Only next year will the party pick a new leader. (That will probably be Jose Manuel de la Sota, governor of Cordoba, whose capital is Argentina's second city, say most bets today, though Eduardo Duhalde, the loser to Mr de la Rua in 1999, has regained influence by winning a Senate seat.) Mr de la Rua indeed is counting on the Peronist governors of the three biggest provinces to go on backing his austerity drive.

They may prove increasingly reluctant allies, however. That is because the economy is worsening. A run on the banks in July and August, though halted by an $8 billion loan from the IMF, has squeezed credit even tighter. Output and sales are falling; and with them, tax revenues, which in the third quarter of this year were 9% lower than in the same period last year. That makes Mr Cavallo's target of balancing the budget even harder.

Since further wage cuts would be political dynamite, officials are seeking savings elsewhere. Mr Cavallo has cut transfers to the provinces, which run schools, hospitals and police forces. This breaches a “federal pact” negotiated last December, and provincial governors are challenging the cuts in the courts. The president met them all on Thursday. Officials hope they will eventually accept the cuts, in return for federal help in renegotiating their provinces' debts to Argentine banks. The economy ministry also hopes to cut its interest burden by strong-arming pension funds (over sour looks from the big rating agencies) to swap short-dated government paper for long-term bonds. The official hope is that a display of fiscal virtue will in due course allow the government to win a “voluntary restructuring” of its foreign debt.

It is a sign of how traumatised Argentines are by past hyperinflation and political violence that most politicians have so far gone along with austerity. Few are prepared to call for a devaluation. This would hit many borrowers hard, since most mortgages and loans are in dollars already. Rather than devalue, Argentina would adopt the dollar, says Mr Colombo. But recession and deflation have bitten hard: private-sector wages have fallen some 20% in the past three years, and overt unemployment now stands at about 17%.

Impatience with the politicians is mounting, as the election showed. Six months ago, Congress voted to give Mr Cavallo emergency powers over the economy. When the new Congress gets going in March, these will not be renewed, says Federico Storani, a Radical legislator. He, like a growing number of politicians, favours restricting foreign-debt payments, as a way to get the economy growing again. Such a debt default, negotiated or otherwise, looks to be only a matter of time.

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Affirmative action in Brazil

I'm black, be fairer to me

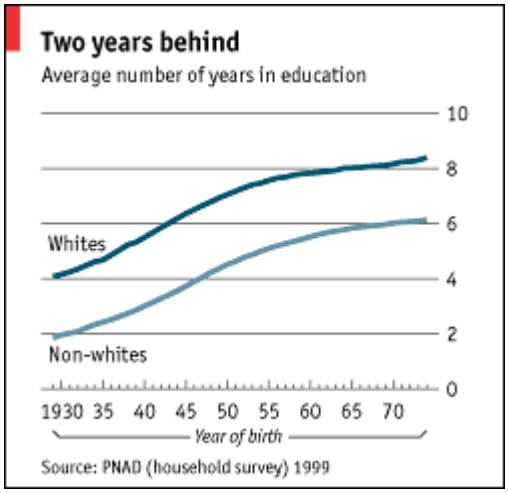
Oct 18th 2001 | SAO PAULO
From The Economist print edition

Brazil may adopt quotas, in education and jobs, for the darker-skinned

UNTIL recently Brazil's (mainly white) elite cherished a myth that theirs was a “racial democracy”, where people of all colours rub along happily together, unlike the strife-torn United States. Untrue, said President Fernando Henrique Cardoso, a sociologist, when he came to power in 1995. Yet there was little official support for going the American way of affirmative action to remedy blacks' unequal access to jobs and education. But last month's United Nations anti-racism conference in South Africa triggered a change. Brazil's officials there agreed to support quotas for blacks in universities and the civil service. This prompted the land-reform minister to talk of introducing them at once. Rio de Janeiro's state assembly has voted to do so in the two universities it finances. Similar projects now mired in Congress suddenly seem to have a chance.

But who is “black”? In as rainbow a country as Brazil, even if an objective test could be agreed on, it would be impossible to administer. So quotas will rely on what skin colour individuals claim. Only 5% of Brazilians now call themselves black. But 40% say “brown”. They too will qualify.

Fair enough, for they too are disproportionately poor, ill-educated and jobless. A recent study by IPEA, an official research body, found that of the 75m Brazilians—about 45% of the population—below the poverty line, two-thirds were brown or black. And though time has brought successive generations of all colours more education, the gap between whites and the dark-skinned—about two years of education—has persisted. At the top, 11% of whites go to university, only 2% of the rest.



The cabinet is divided over quotas. Paulo Renato Souza, the education minister, is against them, arguing that the recent rapid expansion in school places, and his scheme to give poor non-whites special access to student loans, will help to correct inequalities. Not fast enough, argues Raul Jungmann, the land-reform minister. He plans to phase in a 30% quota of jobs for non-whites by 2003, and to impose it also on firms seeking contracts from the ministry. Even firms from the pale-skinned southern states, such as 90%-white Santa Catarina? Mr Jungmann reckons they could fulfil the 30% quota if they tried, but is open to being persuaded otherwise.

Those jobs in Mr Jungmann's ministry that are filled by public exam will not be subject to quotas. But a bill put forward by Jose Sarney—president of Brazil in 1985-89 and now, as a senator, an important figure in Mr Cardoso's coalition—proposes a 20% quota in all jobs at all levels of government. In the lower house, one left-winger is proposing quotas for election candidates and actors in television commercials. Mr Cardoso is waiting for his ministers to reach agreement on how far to go.

As in the United States, whites may challenge any quotas in court, claiming they offend constitutional guarantees of racial equality. However, the constitution allows positive discrimination to correct inequalities; indeed, it demands quotas for women and the disabled. So the Supreme Court seems likely to uphold quotas; its president has publicly backed them.

Would they work? Mr Jungmann dismisses the American argument that affirmative action mainly benefits people who are middle-class already. Brazil barely has a “black” middle class yet, he says; worry when it has. In education, some fear that ill-prepared non-white university students will be unable to keep up,

and simply drop out. Silvio Cunha, a founder of the Steve Biko Institute in Salvador, in the north-east, the “blackest” part of Brazil, argues that quotas alone will not be enough: more must be done to prepare blacks for higher education—as his institute and some other groups already do—and help them stay the course. The education ministry seems to agree; it has asked the Inter-American Development Bank for $10m to finance courses like the Biko Institute's.

And the intended beneficiaries of quotas? Brazil has far less overt racism than the United States, but its dark-skinned do suffer subtler forms of prejudice, and are increasingly ready to protest; as in July, at an up-market shopping mall in Rio, against shops accused of deliberately employing whites only; or at Sao Paulo's fashion fair, where black models denounced their modest share of the catwalk. As Mr Cunha notes, Brazil's politicians (like others, be it said) tend to act only under pressure; but its darker citizens are learning to press.

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Bolivia's president

A new broom starts sweeping

Oct 18th 2001 | LA PAZ
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Jorge Quiroga promised reform, and—much rarer—has begun it

AP

Young Quiroga

IT WAS for the first time that Bolivians can recall: on October 2nd a member of their Congress lost his immunity from prosecution. When Jorge Quiroga, then vice-president, was sworn in to the top job on August 7th, following the resignation of President Hugo Banzer Suarez on health grounds, he promised to root out corruption and nepotism. To the surprise of the public, the process has begun. Cynicism and gloom are giving way to hope.

The unlucky congressman, Roberto Landivar Roca, a former bank owner of interesting reputation, belongs to the Nueva Fuerza Republicana, a relatively new party that until early last year supported the governing coalition. Under the constitution, he could be deprived of his immunity only by a two-thirds vote of Congress. Political deals have always scuppered such moves in the past, sabotaging occasional attempts to reform Bolivia's institutions, and clean up its pork-barrel politics. Not this time: after three years of trying, his critics saw every congressman present except one—his brother—vote against Mr Landivar. Bolivia's regulator of banking and its controller-general, a public-accounts watchdog, had already investigated his handling of some $60m of public funds. The vote meant their findings could be, and have been, passed to the public prosecutor.

Mr Landivar, whose bank was closed by the regulator in 1997, is outraged at being thus singled out. He may soon feel less lonely. Several former officials, both from President Banzer's day and before, stand accused of wrongdoing, and are under investigation by the controller-general. Some at least may be brought to trial.

One reason for all this is pressure from foreigners, eager for reform and increasingly ready to complain when it did not come. Another has been the mire of corruption that new private owners found in various state industries sold off since 1995. But though these factors have raised anti-corruption measures higher on the political agenda in the past five years, they did not change the culture. It has taken a change at the top to start that.

Mr Quiroga, with only one year as president before him, swore to complete two years of institutional reform in that time, not least by replacing most of Mr Banzer's top officials. Remarkably, the parties backing the coalition government have made little overt complaint: their leaders know voters are disillusioned with them, and fear being seen as obstructive in the months before next June's elections.

By moving fast to pick people for high state jobs on the basis of talent, not party or personal loyalties, Mr Quiroga has also got on better terms with the opposition. That has helped him turn his promises of reform into practice. Plans for a permanent, non-political civil service, and for independents to head the various electoral courts, and some other previously dubious bodies like the national roads service and the internal revenue, have all gone smoothly. A law to give the controller-general more powers has gone through; so has one to make officials responsible for money under their control that somehow turns out to have got lost.

But how long will the good news last? Many Bolivians wonder, suspecting that political leaders have chosen to offer up a few sacrificial goats to save their parties' own corruption-tainted skins. As for Mr Quiroga, the constitution bars him from instant re-election. But he can hope to leave a record that will be remembered when the next elections come round in 2007. He will still be two years short of 50.

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Chile's politics

Count your blessings

Oct 18th 2001 | SANTIAGO
From The Economist print edition

Since September 11th, voters have begun to see that life could be worse

TO CHILEANS, home has begun to look sweeter than it did a few weeks ago. The economy is faltering and the job market weak, but terrorist attacks and war would be worse. This new perspective if it lasts, may be good news for President Ricardo Lagos, whose allies face congressional elections in December.

When he took office in March 2000, Chile looked set to recover strongly from the effects of Asia's financial woes. It did—briefly. After falling 1.1% in 1999, GDP rose by 5.4% last year, but is expected to slow to 3% or so this year, and not much better next. The copper price is low, and world trade, on which Chile is highly dependent, under threat. Worse, with Chile's peso hurt by trouble in Argentina, and inflation up to 3.9% in September and threatening to rise further still, interest rates may have to rise too. Yet unemployment is already near 10%, and would be close to 12.5% but for job-creation schemes. An unemployment-benefit scheme is due to start next year, but the jobless today are pretty unprotected, and dislike it.

Opinion polls have shown the results. The centre-left government was widely popular when Mr Lagos took office; by July this year, polls registered 44% disapproval. The conservative opposition has been looking forward to December 16th, when Chileans will elect a new lower house and half the Senate. But the atrocities of September 11th have put voters' woes in a new light. “With world events so brutally present in people's living rooms, it's harder to argue that blaming them for our troubles is just a government excuse,” says the finance minister, Nicolas Eyzaguirre.

The best current guess is that the centre-left coalition will take just over 50% of the vote on December 16th. That would probably mean no change in the Senate, which is now hung. But the coalition may be at risk in the lower house, where it now holds 70 of the 120 seats; Christian Democracy, its largest element, is expected to lose 5 of its 38. The coalition may get less help than it did in 1997 from the electoral system—60 constituencies, with two seats apiece, both going to the best-placed party unless the second-placed one gets at least a third of the vote. But in several areas the coalition can still expect to take both seats. Only in the prosperous suburbs of eastern Santiago is the opposition likely to do so.

Mr Lagos is keen to push forward his promised economic and social reforms, held up partly by the long legal battle to decide whether the former dictator Augusto Pinochet could or could not be put on trial, and partly by the economic slowdown. This hurt both the government's tax take and its relations with business. Some business reforms are in place—deregulation of capital markets, for instance—but a plan to promote a local venture-capital industry is still pending. Health care and education both need an overhaul. A long world recession would make this hard to afford. Mr Eyzaguirre reckons that, once the world is growing again, Chile's idle capacity will allow it two years of rapid growth before structural reforms need to kick in. Trade agreements now being negotiated with the United States and the European Union could help. But with nearly a third of his six-year term gone, Mr Lagos needs vigorous growth sooner rather than later.

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Indonesia

Java's angry young Muslims

Oct 18th 2001 | JAKARTA AND YOGYAKARTA
From The Economist print edition

Reuters

President Megawati can control the extremists in the world's largest Muslim state—for now

Get article background

YOGYAKARTA, home to the magnificent Borobudur temple, used to be Indonesia's main tourist draw after Bali. But now the floods of back-packers have become a thin and nervous trickle. Posters on the city's lamp-posts declare “America equals fuel for hell”. In nearby Solo, hoteliers were recently approached by people wanting to check their guest lists for American citizens. A slew of militant Islamic organisations have set up base in the area, with names like the Mujahideen Council or Laskar Jihad. Four years ago it was rare to see a woman wearing a headscarf here. Now it is common.

As anti-American protests erupted over the air strikes on Afghanistan, American citizens in Indonesia started receiving threatening phone calls. The embassy compound has been sealed off by rolls of razor wire from furious demonstrators calling for a *jihad* or holy war. They have hurled objects at the embassy and tried to light fires near it. Yet so far a heavy police presence has easily kept them in check: the protests have been remarkably small for Indonesia, rarely numbering more than 1,000 people, even after Friday prayers.

Many Muslim passers-by, indeed, have been contemptuous, calling the protesters stupid. The anti-American voices had done their best: imams had preached against the strikes. The Indonesian Ulemas Council, the country's top Muslim body, had called for the government to “suspend” diplomatic ties with America and Britain. There were calls, too, for boycotts of American products. But Indonesians love their fast food like anyone else and McDonald's carried on doing a brisk trade.

At the forefront of the anti-American campaign has been the hardline Islamic Defenders Front (FPI). Better known for raids on girlie bars and gambling joints, like other hardline groups the FPI claims to speak for Indonesia's majority. Indonesia is overwhelmingly Muslim, at least on paper. In reality, most Indonesian Muslims are scared of the FPI. Its leader, Habib Riziek Syihab, has demanded that all American and British citizens leave Indonesia and has threatened sweeps for foreigners. But few have packed their bags yet.

Mr Habib and his followers have tried hard to whip up public sentiment but, unlike President Megawati Sukarnoputri, they do not enjoy much popular support. On October 15th, police beat up FPI protesters at the parliament with sticks, tear gas and water cannon, after rumours spread that they wanted to occupy the parliament building. The would-be *jihad* warriors were sent scrambling. A spokesman for the police has declared they will take such action again, if needed. A telephone survey by a local news network,

Metro TV, showed overwhelming public support for the police action.

But there are real dangers for Miss Megawati, only appointed president three months ago. Roy Janis, an influential member of her party, says Islamic groups are trying to use the Afghan issue to bring her down. She initially promised support to America, in return for generous offers of aid, including the formerly unthinkable resumption of direct military ties. But Vice-President Hamzah Haz, an Islamic conservative, then spoke out against the raids. At that point Miss Megawati toned down her support for the Americans. Her party is the largest in parliament, but mathematically she could still be impeached.

Appointed after a long battle to oust her predecessor, Abdurrahman Wahid, Miss Megawati walks a difficult path. The Islamic conservatives who oppose the air strikes include people who sabotaged her first bid for the presidency in 1999. Many think a woman should not lead Indonesia, the world's largest Muslim country. Others dislike her secular views. Her father, Indonesia's founding president, Sukarno, banned most Muslim parties in the 1950s.

The real danger comes not from an uprising, but from a slow rot. The autocratic former president, Suharto, kept the Islamic firebrands in check by repressive means. That is no longer possible in the new, more democratic Indonesia. Yet its general lawlessness has made Indonesia an easy place for terrorists to operate. There are indications an al-Qaeda cell may be operating within the country. If Indonesia's economic slump drags on for years, a new generation will grow up knowing only perpetual unrest and mass unemployment and could be easily influenced.

In a tiny village just north of Yogyakarta, the Ahlus-Sunnah Wal Jamaah Communication Forum has its headquarters. This is the parent body of Laskar Jihad, the Islamic militia that has sent thousands of fighters to the Moluccas and Central Sulawesi to fight a holy war against Christians. Its 39-year-old commander, Jafar Umar Thalib, like Osama bin Laden, is a veteran of Afghanistan's war against the Soviet Union.

Though he is critical of Mr bin Laden, whom he once met in Peshawar, calling him stupid and an extremist, Mr Jafar's ideas about Indonesia's future terrify many Indonesians, Muslim and non-Muslim alike. He and his supporters have unilaterally declared *sharia* law in Ambon and he suggests it could be enshrined permanently one day for the whole country by the supreme People's Consultative Assembly. Expect more than posters then.

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About sponsorship

India and Pakistan

Crossing the line

Oct 18th 2001 | DELHI
From The Economist print edition

Colin Powell's visits solved little

EPA

Back in action

THIS week India caught America's wandering attention when it fired at Pakistan army posts across the line of control that separates the two countries in Kashmir, though at least it refrained from sending troops or air force planes over it.

India said that the posts harboured terrorists from Kashmir; but Pakistan claimed that it was “unprovoked firing on civilians”. On Wednesday evening, Pakistan announced that it was putting its troops on “high alert” in response to alleged Indian troop movements (which India denied). India's cross-border firing was primarily a response to a suicide car bomb attack on October 1st in Indian Kashmir. Apparently staged by the Jaish-e-Muhammad (JeM), a Pakistan-based militant organisation linked to the Taliban, the car bomb hit the Jammu & Kashmir assembly building where 38 people were killed in the blast and subsequent shooting.

India's cross-border action was almost certainly planned to coincide neatly with the arrival in Pakistan on October 15th of Colin Powell, the American secretary of state, who tried, unsuccessfully, to calm relations between the two countries that have fought three wars in the past 54 years. India wanted to demonstrate to Mr Powell that it was tired of Kashmir being on America's back-burner and that America should realise that, while helping the fight against terrorism across its western border in Afghanistan, Pakistan was continuing to promote it across its eastern border in Indian Kashmir.

But Mr Powell disappointed. He made it clear that, while he agreed that terrorism in Kashmir needed to be stopped, America's first priority is to use Pakistan's support for closing down Afghanistan's Taliban-backed al-Qaeda. That, he indicated, precluded America from taking a tough line on Kashmir at this stage. Mr Powell diplomatically spent just under a day each in the capitals of Pakistan and India. In Islamabad he stressed America's “enduring commitment” to the “great Muslim nation” of Pakistan and promised long-term economic support. In Delhi he bracketed India and America together as “natural allies” and “two great democracies that share common values”.

But he left the two conflict-prone countries as he had found them—aggressively divided by the half-century-old dispute over Kashmir—as Pakistan's declaration of a state of alert demonstrated. Relations between the two countries have, if anything, worsened since Atal Behari Vajpayee, India's prime minister, and General Pervez Musharraf, Pakistan's military ruler, held a summit in the Indian city of Agra three months ago. That meeting produced no solutions, and hardliners forced both leaders to adopt increasingly belligerent stances in the days that followed. Infiltration of Pakistani-backed militants into Kashmir has continued since then and there has been no decrease in their activities since Pakistan lined up with America against the Taliban; Indian officials say that close to 200 terrorists were killed in both the four weeks before September 11th and the four weeks after. An earlier Indian initiative launched in April to enable K.C. Pant, a veteran politician, to broker peace with Kashmir-based groups has also failed to produce results.

India is refusing to talk to Pakistan about Kashmir until cross-border terrorism ends. In a phone call to Mr Vajpayee on October 8th, Mr Musharraf softened his usual insistence that the Kashmir violence is part of a Muslim “freedom struggle” and condemned the bombing of the Kashmir assembly. According to some reports, the JeM organised that bombing to demonstrate its opposition to General Musharraf's support for

America in Afghanistan—which exposes some of the rifts that have developed since September 11th in Pakistan. Despite the general's condemnation of the bombing, infiltration across the border has not stopped and, as the latest outbreak of firing demonstrates, there is no peace in sight.

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About sponsorship

Tajikistan

On the edge

Oct 18th 2001 | DUSHANBE
From The Economist print edition

Tajikistan is nervously watching the war in its troubled southern neighbour

Reuters

Praying for better times

JUST four top politicians murdered in five months was pretty good going by Tajikistan's dismal standards until September 11th. Now the poorest country in the former Soviet Union must add a geopolitical upheaval to its long list of problems.

The compromise that ended Tajikistan's civil war in 1997 gave the country's Islamic opposition a clutch of lucrative and powerful government positions. Over the past five years the place has largely held together, barring the odd assassination or insurrection. One reason was the Kremlin's influence: Russian troops are by far the most serious military force in the country. The second is the state's grip on Tajikistan's most lucrative industries, both legal (cotton, gold, aluminium) and illegal (heroin). Sliced small, that pie keeps most people who matter happy.

But not the bulk of the 6.1m population. Around four-fifths, by the government's estimation, live in absolute poverty. Pensioners get only a couple of dollars a month; a schoolteacher, working an exhausting double shift, makes $10. Many Tajiks—more than a million, some say—have left. Boynazar Allahmurodov, a well-educated, multilingual teacher, has just returned from a two-year stint of twelve-hour days seven days a week, working illegally on building sites in Moscow for $180 a month. Thanks to his clean, carefully pressed clothes he was lucky: the Russian customs officials did not extract the usual $100 “fine” normally levied on Tajik labourers heading home.

In his home village, an hour from Dushanbe, Mr Allahmurodov's savings make him a big fish, albeit in a miserable pond. His brother Mirzo, also a teacher, has given up his job for subsistence farming. Standards at the local school have fallen drastically, he says. His son, aged nine, can barely write his own name. There is no time to teach him at home: the children must work in the fields. Farming is a struggle. Tajikistan's Soviet-built irrigation system was largely destroyed in the civil war. Coupled with a three-year drought, that makes farming hard, even in a fertile region. There is running water once a week, electricity for two hours a day.

Recently, the country's isolation has increased. Tajikistan's main lifeline to the outside world, the train to Russia, has stopped running because the country cannot pay the transit fees. Its two most important neighbours, Uzbekistan and Kazakstan, keep Tajiks out for fear of terrorism (Tajik passports are easy to get for Afghans wanting to travel). The only glimmer of hope is a new road to China, just opened through the country's mountainous east. That gives Tajikistan a much-needed road route to the Pakistani port of Karachi, free of its ex-Soviet neighbours' chokehold.

Against this miserable background, what changes will the war in Afghanistan bring? Tajikistan is an obvious place from which to deliver military supplies to the anti-Taliban forces in northern Afghanistan, should America want to. Pentagon experts are currently looking at a Tajik military airfield, although so far there is nothing to compare with the intense involvement in Uzbekistan.

If the Americans do come, many Tajiks will be pleased. There certainly seems little sympathy anywhere for the Taliban. After an initial kerfuffle, the Tajik authorities now obediently take their lead from Russia; for its part, the opposition is strongly influenced by Iran, which loathes the Taliban. Among the public, solidarity with the Tajik-speakers of northern Afghanistan mostly outweighs any Islamist sentiment.

In the short term, though, the war will mean even more problems. Ten thousand destitute Afghan refugees are already huddled on the border. For them, even Mr Allahmurodov's dirt-poor village would be a haven of peace and comfort.

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Sri Lanka's elections

Start again

Oct 18th 2001 | COLOMBO
From The Economist print edition

A year after electing a new parliament, Sri Lanka is going back to the polls

Get article background

SRI LANKA'S political crisis seems to be going from bad to worse. Facing the prospect of a no-confidence vote, President Chandrika Kumaratunga has dissolved parliament and called for fresh elections, to be held on December 5th. Mrs Kumaratunga's move came after 13 members of the ruling People's Alliance (PA)—including four cabinet ministers—defected to the opposition, wiping out the government's already thin majority in the house.

This is only the latest episode of a sorry tale of defection and political horse-trading. Last June, the government had already lost its majority when the Sri Lanka Muslim Congress (SLMC) and its 11 MPs withdrew from the ruling coalition. Mrs Kumaratunga—who is not authorised to dissolve parliament less than a year after it has been elected—suspended it for two months and, unhappy with the voting system, called for a referendum on the constitution.

This provided enough time for her to enlist the support of the Marxist People's Liberation Front (JVP), which staged two rebellions in 1971 and 1987 and is thought to have murdered Mrs Kumaratunga's husband in 1988. The JVP's 10 seats in the house allowed the government to recapture a majority, but it came with a price: the JVP demanded that the referendum be cancelled, the cabinet shrunk from 44 to 20 ministers, the privatisation programme halted and new labour laws implemented. The partnership, however, has only lasted until the house could legally be dissolved.

The road to electoral victory may prove bumpy for Mrs Kumaratunga's shaky coalition. The economy is in a shambles. Attempts to end the 18-year-old ethnic conflict with Tamil rebels have come to nothing. Political opponents claim the president is corrupt and protects inept and corrupt cronies.

Attempting to ramp up some support before the elections, the government is resorting to handouts. Civil servants and pensioners have just been granted extra cash, while fresh subsidies for cooking gas and wheat flour, together with tax reductions, have been announced. Whether or not this influences the outcome of the elections, it promises a few headaches for the next finance minister.

The opposition does not look in great shape either. The National Unity Alliance (NUA) is a mixed bag of diverse interests which seem to have little in common, save their dislike for the ruling coalition. Whatever the outcome of the struggle between the People's Alliance and the NUA, the JVP, which has decided to stand alone, could once again emerge as the kingmaker after December 5th.

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Japan's economy

Darker and darker

Oct 18th 2001 | TOKYO
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Is the big one about to hit?

FOR evidence of the speed of economic decline in Japan, look no further than the government's own forecasters. In January, officials were predicting growth of 1.7% this year. By July, this had become 0.5-1%. This week Heizo Takenaka, the economics minister, was hinting at a still lower target of minus 1%. But even this may prove hard to meet.

Japan has taken a knock or two since the collapse of its "bubble" economy in 1991. So far, however, catastrophe has not struck. Bankruptcies and unemployment are rising. But both are still modest by world standards. The private sector grows weaker and weaker. But bursts of government spending have eased the malaise—this week, the government was promising another boost, perhaps of $16 billion. The past ten years have brought three recessions, but all have been shallow.

With a fourth now upon them, the Japanese are wondering whether this recession will be nastier. One big change is to the world economy. The high-tech boom and America's long economic expansion had boosted Japan's big firms. With these props gone, even strong companies look suddenly frail. Electronics giants like Toshiba and Hitachi are cutting tens of thousands of jobs. World-beaters like Sony are barely in profit. When America boomed, Japan could manage only a little growth. What hope with America in recession?

A second, more serious, worry is the undertow of deflation, which has grown steadily stronger. Properly measured, high-street prices are probably falling at 2% a year, and the slide is deepening. Deflation wrecks the finances of anyone with debts. Households struggle to repay mortgages on property worth less than what they borrowed. Companies, especially in the horribly over-borrowed property, construction and retail industries, cannot meet interest payments from shrinking sales revenues. Last month Mycal, a big supermarket chain, went bust with $14 billion of debts. Banks, already struggling under a mountain of bad debt, find themselves teetering under freshly-soured loans. In real terms, the economy looks misleadingly stable. But the nominal figures, which are unadjusted for deflation, are far darker: in nominal terms, the economy shrank by more than 10%, at an annualised rate, between the first and second quarters of this year.

Deflation is upending the way money is supposed to work. People now prefer cash to investments because holding it earns them a good return: things cost less tomorrow than they do today. Companies are hoarding cash to pay back their debts, shrinking their assets. Households no longer invest in risky assets, and companies shun financing them. With short-term interest rates at just 0.001%, money is all-but free in Japan. But bank lending has fallen for 44 months in a row.

For the moment, all this devastation remains largely hidden. The government props up the banks, and the banks prop up their customers. But the collapse of Mycal, a big employer with once-powerful friends, is a sign that the system is under awful stress. Bank regulators are said to be terrified of toughening their stance towards the banks, which are suspected of under-reporting bad loans, for fear of triggering a general collapse.

Junichiro Koizumi, the prime minister, is already in danger of breaking earlier pledges to voters, like

cleaning up the banks and the government's finances. But there is one pledge Mr Koizumi may meet handsomely. With reform must come pain, he has told the voters. There has been precious little reform yet, but no one can complain about a shortage of pain.

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APEC meeting

China's disappointment

Oct 18th 2001 | BEIJING
From The Economist print edition

EPA

The terror summit

The fight against terrorism will dominate the APEC meeting

THE government had long hoped that this weekend's summit of the Asia-Pacific Economic Co-operation forum (APEC)—the biggest gathering of foreign leaders in China—would give it an opportunity to trumpet its economic achievements and its immunity to the slowdown affecting others. China is disappointed that the fight against terrorism, not economic issues, will dominate proceedings.

The authorities have gone to extraordinary lengths to ensure the meeting goes smoothly. Tight security has been imposed around the city, and workers have been given extra days off in order to keep traffic in Shanghai's congested streets to a minimum. China has also sought to impress delegates by lifting, at least temporarily, its blocks on Internet access to some American websites, including those of CNN and the Washington Post. But Chinese officials are clearly irritated that Mr Bush and the other leaders will have little time to focus on Shanghai's flourishing economy and the efforts the country has made towards admission to the World Trade Organisation, now expected for the first half of next year.

Mr Bush's side visits to Beijing, Seoul and Tokyo have been cancelled. He will have time only to attend the two-day summit and hold bilateral meetings with other APEC leaders. This will provide a crucial opportunity to secure the backing of Muslim-dominated Malaysia and Indonesia in his anti-terrorism campaign, as well as to talk to Chinese, Russian and Japanese leaders about their support.

China has grudgingly accepted that terrorism will be a central concern. The APEC leaders will endorse a statement pledging to clamp down on terrorists' finances. But China's government is not alone in the Asia-Pacific region in being more worried about the impact on the region's economy of the terrorist attacks in America and the subsequent military campaign.

China announced this week that its third quarter GDP growth fell to 7%—from 7.8% in the second quarter and 8.1% in the first—but remains confident that it will hit 7% for the year. This is much higher than other APEC economies will achieve, but still far from sufficient to provide work for the fast-growing numbers of unemployed.

APEC officials say that, despite the economic slowdown, they will be able to agree at least to continue working towards free trade and investment among developed APEC economies by 2010 and the others by 2020. But while trying to keep the agenda focused on economic issues, China could not resist some political squabbles. It refused to allow Chen Shui-bian, president of fellow APEC member Taiwan, to attend the summit. At mid-week, it was still unclear whether Taiwan would even be allowed to send a former vice-president, Li Yuan-zu.

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Israel

Which way will Ariel Sharon now go?

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From The Economist print edition

AP

The pressures on Israel's prime minister after Rehavam Zeevi's assassination

“YOU'VE made Arafat's day,” Ariel Sharon inveighed from the Knesset podium on October 15th at the leader of the ultra-right National Union party, Rehavam Zeevi, who had just announced his secession from the governing coalition. Two days later, Mr Zeevi, aged 75, was dead, shot by an assassin in a hotel in East Jerusalem where he always stayed when the Knesset was in session. His party colleagues were back in the government, deferring their departure, they explained, in order to influence the cabinet's response to his murder.

Having rejected the urgings of his long-time friend and comrade-in-arms while alive, to remove Yasser Arafat by force and dismantle his Palestinian Authority, Mr Sharon faced the same pressures anew from the slain Mr Zeevi's followers and from other hardliners in his unity government. Some pundits recalled the assassination attempt on the Israeli ambassador in London in June 1982, which served Mr Sharon, then defence minister under Menachem Begin, as the pretext to unleash Israel's long-planned invasion of Lebanon. Has he really changed, as his past eight months in office have led many to hope?

His initial comments were hardly encouraging. The assassination, he said, was for Israel what September 11th was for America. “A new era”, he said, had begun. The Popular Front for the Liberation of Palestine (PFLP), a small, left-wing faction within the PLO, took credit for the killing, carried out, it said, in revenge for Israel's assassination on August 27th of its leader, Abu Ali Mustafa. But Mr Sharon insisted that Mr Arafat, and he alone, was responsible. He had done “nothing serious” to curb terrorists operating out of his territory, despite his claims to the contrary. Even the leader of the doveish opposition party, Meretz, who spoke after Mr Sharon in a sombre Knesset memorial session, insisted that Mr Arafat must act at once, with no more “ducking and weaving. If he fails to take effective action, this whole land will burn.”

Mr Arafat issued a quick, unequivocal condemnation of the killing. His security forces arrested a number of PFLP men. But Israel demands much more. It wants all the top PFLP activists rounded up, and those involved in the killing handed over to Israel for trial. It has sent its tanks and troops into Palestinian-controlled areas, killing several Palestinians, and has reimposed the blockades that were eased or lifted during the week of reduced violence that preceded Mr Zeevi's assassination. But even during that week, three Hamas activists were killed in three separate incidents. Israel admitted to one of them; the Palestinians believe it carried out all three.

Beneath Israel's anger at Mr Zeevi's death, some second thoughts were discernible, even inside the cabinet, over the wisdom and efficacy of what Israel calls its “targeted deterrence” policy. Both the PFLP and the Islamist organisations had given warning that they would hit senior Israeli policymakers to avenge their 40-odd comrades assassinated by Israeli helicopters, sharpshooters and bombs over recent

months. Although there are expected to be more such assassinations, Mr Sharon, under exhortation from America, may be prevailed upon to resist the pressure from the right to escalate the level drastically.

But if the military response to Mr Zeevi's death is relatively restrained, and if the Americans do become both serious and assiduous in their peacemaking efforts, Mr Zeevi's party will presumably consummate its divorce from Mr Sharon, leaving the prime minister's survival prospects dangerously weakened. His coalition still has a comfortable-looking margin of 16 seats in the Knesset of 120. But this could soon vanish. If Shas, the Sephardic-Orthodox party with its 17 seats and largely hawkish electorate, were to leave him, he would lose his majority. And Shas will be under pressure, competing as it does for much the same pool of voters as the opposition National Religious Party.

On the other hand, if he decides to veer rightwards, Mr Sharon will risk losing Labour, which itself is subject to constant sniping from Meretz. But Labour, and this is a new and crucial factor in Israeli politics, looks incapable of mounting a credible challenge from the left. Leaderless after a still-disputed near-tie in its primary election on September 4th, the party is being doomed by the opinion polls to ignominious decimation.

The Americans will have to take all this on board as they go about their regional diplomacy. Incredible as it would have sounded a short time ago, shoring up the unpredictable Mr Sharon may now be the safest short-term option for moderates, in Israel and abroad. But can the strange new Israeli centre of Mr Sharon and his foreign minister, Shimon Peres, survive?

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Iran and Afghanistan

Protest gathers on the border

Oct 18th 2001 | ZAHEDAN
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The anger of Baluchi tribesmen and Afghan refugees at the bombing

AP

Remember the quiet times, before the war on terrorism?

A NEW flashpoint is Iran's frontier with Afghanistan. Security in south-east Iran is tight, but the bombing of Afghanistan has aroused the anger both of local tribes in sympathy with the Taliban, and of refugees already in Iran. Officials suggest that the security forces could have trouble controlling the region.

Zahedan, the capital of Sistan-Baluchestan province, is just 20 miles (32 kilometres) from the Afghan border. Residents are fearful that civil unrest will grow as militants from the Baluchi tribe, which straddles Iran's frontier with Afghanistan and Pakistan, express their anger at the American military strikes. After Friday prayers, on October 12th, the regime, for the first time, allowed protesters a fairly free rein. But the upsurge of fury in Zahedan took the security forces by surprise.

Crowds of young men, Baluchi and Afghan, yelled in anger. Their first target was the Pakistani consulate, which they bombarded with a hail of stones and abuse. “Musharraf is a traitor,” they shouted. “Hang him!” Many proclaimed their willingness to fight the Americans. “If the *ulema* (clerics) give us the order for *jihad*, we will take up arms against the enemy,” said a volunteer mosque worker in Zahedan. The police fired live rounds to disperse the protesters, killing one of them.

By noon, a crowd of some 20,000 had gathered at the Jameh Maqqi mosque, the largest Sunni mosque in town. They read from a leaflet which accused “the uncivilised and barbaric Europeans” of “looting the Muslim world”. Fired by an inflammatory sermon, the crowd mobbed a handful of western journalists, chanting the mantras of the 1979 Islamic revolution: “*Marg bar Amrika! Marg bar Israel!*” (Death to America. Death to Israel). Only the intervention of the security police, who waded into the crowds with batons and shields, saved the foreigners from injury.

Even before the Afghan crisis, Sistan-Baluchestan was the most sensitive of Iran's difficult border regions. Militant Sunni extremists, accused by officials of orchestrating bomb attacks on Shia Muslim targets, often clashed with the armed forces. The province is host to hundreds of thousands of Afghan refugees who have lived here for up to 20 years. Some 40% of Zahedan's 500,000 people have come from across the border in Afghanistan.

In addition, Baluchi drug traffickers, who transport opium, heroin and hashish through Iran to Europe, fight frequent pitched battles with the army in the desolate stretches of desert surrounding Zahedan. Iran says that some 2,700 soldiers and policemen have died fighting the traffickers in the past two

decades.

Over the past month, Iran has drafted in 30,000 extra police and soldiers to its eastern provinces to help seal the border against the expected flood of new refugees (see article). But in places such as Zahedan, the riot police and Revolutionary Guards are now deployed as much to maintain domestic security as to guard against a refugee invasion from the east.

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Refugees in Iran

Invisible Afghans

Oct 18th 2001 | ZAHEDAN
From The Economist print edition

The fear of deportation

AP

And those already caught

AID agencies are stockpiling huge reserves of food, shelter and medicine on Iran's border with Afghanistan. The United Nations has flown in thousands of tents, plastic sheets, and blankets. Potential refugee camps, and their water sources, have been identified. All that is missing is the refugees.

For the past week, relief workers in Iran have struggled to understand why the expected influx of up to 400,000 Afghans has failed to materialise. Several times a day they ask each other for an update on the border situation. Each time, the answer is the same: all quiet.

In fact, Afghan refugees have been arriving in Iran, but they have done so quietly. Since the government has officially closed the 560-mile (900-km) frontier, newcomers are classified as illegal aliens, liable to deportation.

So the refugees, scared of registering with the authorities, have disappeared into the backstreets of Zahedan, Mashhad and other cities, many finding temporary refuge with the 2.4m Afghans already in Iran. But as unregistered immigrants they do not qualify for emergency help. “We work through the government,” explains the World Food Programme's agent in Iran.

Iranian officials are frustrated that their government, which for more than two decades has borne the cost of Iran's existing refugee population almost alone, will now have to shoulder the burden of this additional refugee influx. For unless significant numbers of Afghans appear openly on the border seeking help, aid workers say that they will soon be forced to transfer their resources to Pakistan or Tajikistan, where the need is open and obvious.

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Nigeria's Muslim-Christian riots

Religion or realpolitik?

Oct 18th 2001
From The Economist print edition

Violent eruptions in Nigeria may have more to do with politics than religion

AP

A Kano mosque after the riots

IN A country vulnerable to sectarian violence, the American bombing of Afghanistan seems to have been the match that set off the ugly Muslim-Christian riots that broke out in mainly-Muslim Kano on October 12th. After two days of clashes, concentrated in the "settler district" where outsiders, many of them Christian, live, 18 people were confirmed to have been killed. It was feared that this casualty figure might rise, sharply. Since then, the northern city has been tense, with the police using teargas to disperse large crowds of angry Christian and Muslim youths.

Nigeria's 120m or so people are divided almost equally between Islam and Christianity. Muslims are the majority in the north, Christians in the south, and in the middle they live side by side, with big minorities existing everywhere. It is a scene that provides ample tinder for troublemakers to light fires.The most explosive issue, since Nigeria returned to civilian rule in 1999, has been the introduction or extension of the *sharia*, or Islamic law, in a dozen northern states against the wishes of their Christian minorities.

According to conservative estimates, more than 6,000 people have been killed in civil unrest since 1999. The Muslim-Christian divide has usually defined the combatants. More than 2,000 people died in clashes in Kaduna in February 2000, and hundreds more in Aba the following month. In June this year hundreds died in similar clashes in Bauchi state, and more than 500 died in Jos, a city in the centre of the country, last month.

One of Nigeria's Islamic leaders, Sheikh Ibrahim el-Zak Zaky, gave warning last month that the American bombing of Afghanistan could provoke trouble. While condemning the September 11th attacks on America, he forecast that America's response could radicalise the situation in Nigeria: "If America acts wisely it is one thing. But if it turns it into a war against Islam, there will be a reaction here."

Support for the introduction of the *sharia* is strong among Nigeria's Muslims. But many give practical reasons rather than theological ones. "In this Nigeria there is too much corruption. Our hospitals are too poor and our schools are too bad," is a typical answer, suggesting that a government, and a justice system, that follows God's law is thought to be better than a corrupt secular government.

Abubakar Sadiq, a political scientist, argues that much of the violence is politically orchestrated. Unscrupulous politicians play on religious fears in a country already angered by poverty and insecurity. The economy has collapsed and the police force is dysfunctional. Violence between people of the same faith, says Professor Abubakar, is even more common than inter-religious conflict.

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Corruption in South Africa

Not quite so squeaky clean

Oct 18th 2001 | UMTATA, EASTERN CAPE
From The Economist print edition

Politicians, businessmen and civil servants are caught in dubious deals

WITH their placards proclaiming “Down with political thuggery” and “We want transparency”, the people of Lower-Vaalbank, high in the Drakensberg mountains, had stood for hours last weekend to tell the president how awful their local politicians were. Stepping down from his helicopter, Thabo Mbeki promised that local corruption would somehow be ended before he came back. “And I promise I will return soon,” he said.

Elsewhere on Mr Mbeki's tour of the Eastern Cape, South Africa's poorest province, people in villages and towns recited similar lists of complaints: too few jobs and tarred roads; no electric grid or running water in remote villages; hospitals with no staff. The councillors and local politicians who should deliver these services are, they claimed, untrustworthy, distant and corrupt. Money meant for local development vanishes. Promised projects do not materialise. Once in office, local leaders ignore the voters.

In Motherwell, a crime-ridden, ramshackle corner of Port Elizabeth, it was easy enough for Mr Mbeki to win ululations for declaring that the councillors, who squirmed before him on stage, were “too far from the people”. But many members of his own establishment are accused of similar faults and shady dealing. And sorting them out is a much harder task.

Allegations that some of the officials behind a 1999 arms deal worth about $5 billion accepted bribes and other benefits from bidding companies have gripped South African headlines all year. At the beginning of this month, the chief whip of the ruling African National Congress (ANC), Tony Yengeni, was charged with corruption, fraud and perjury after investigations by a police unit known as the Scorpions. Last week Michael Woerfel, a senior employee of European Aeronautic Defence and Space Company (EADS), a multinational that bid for contracts, appeared in court in Pretoria charged with corruption.

The company conceded earlier this year that it had “helped” 30 South Africans with hefty discounts on luxury cars. Mr Yengeni, who resigned his whip's job, was the most prominent of them. This week, the trade ministry agreed to discipline Vannan Pillay, a senior official who supervised the defence-procurement deal and received a 55,000 rand ($6,000) discount from EADS for a flashy car. Others, including a former defence minister, Joe Modise, are under press scrutiny for jobs or shares taken in companies that won bids.

Mr Mbeki has given warning that anyone caught up in wrongdoing must expect to face political isolation, and the full process of the law. On October 18th, Winnie Madikizela-Mandela, head of the ANC's women's section and former wife of Nelson Mandela, was due in court in Pretoria on dozens of counts of defrauding a bank. The opposition, too, is in trouble because of corruption. This week, the Democratic Alliance looked on the verge of splitting into its two component parties, over the question of expelling an allegedly corrupt mayor. Until it sorts this out, it will have problems criticising the ruling coalition.

But the country can ill afford a corrupt reputation. It has to shake off the legacy of apartheid, when nepotism and sanctions-busting bred a shady culture, and avoid linkage with dishonest African governments. South Africa is ranked well above most African countries by corruption monitors: Transparency International this year marked the country 38th out of 91, better than Greece or Poland, for instance.

How can Mr Mbeki preserve, or improve, his country's reputation? First, by keeping his promise to the people of Lower-Vaalbank, and ensuring that low-ranking corruption is not tolerated in the ANC or in local councils. And, second, by doing nothing to impede the coming investigation of high-ranking politicians.

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Muslims in Europe

How restive are Europe's Muslims?

Oct 18th 2001 | PARIS, BERLIN, MADRID AND LONDON
From The Economist print edition

EPA

As the American and British bombing of Afghanistan continues, Europe's Muslims are increasingly nervous

TAKE a quick overview: in America, the FBI is interrogating a Frenchman of Algerian origin who once attended a mosque in London. In France, the special judge in charge of terrorism inquiries is questioning suspected members of an extremist cell apparently set up by another Franco-Algerian. And in Britain, Belgium, Germany, the Netherlands, Spain and Italy still more suspects have been caught in co-ordinated police raids. What all, regardless of nationality or country of arrest, have in common is the ability, by race or religion, to fit unnoticed into Europe's many Muslim communities.

No wonder, therefore, that since the terrorist attacks of September 11th, Europe's Muslim minorities have become more visible—and more worried. Fortunately, there have so far been few incidents of violence against Muslims. Indeed, Europe's leaders (bar Italy's Silvio Berlusconi, with his notion of Christian superiority) can congratulate themselves that their soothing words seem to have worked. As Germany's chancellor, Gerhard Schröder, put it, “This is not a clash of civilisations but a war *for* civilisation.”

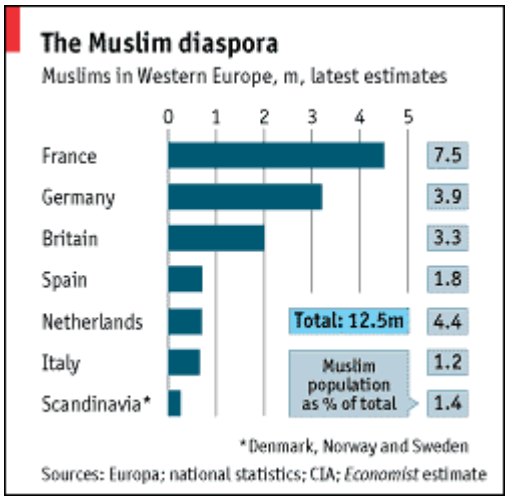
Muslims themselves have reacted in a fairly united way to the attacks and the war that has followed. Their leaders were quick to condemn the carnage in New York but since the American strikes against targets in Afghanistan began they have become more sceptical and uneasy. British Muslims, some of whom have relations in Pakistan and Afghanistan, are especially worried. Many Muslims across Europe fear that America's retaliation might prove counter-productive. In France, Soheib Bencheikh, the grand mufti of Marseilles, says pointedly: “I'm afraid that bin Laden's image is being magnified. There's a risk he may be idealised as a leader for the many young Muslims who live in social and economic exclusion. The risk is that this madman might become a hero, a martyr.”

Europe's Muslims share feelings of exclusion, though their political grievances are not uniform

However, since no European country has a uniform Muslim minority, the political grievances these minorities feel are not uniform either. Dislike of American policy towards Israel and Iraq is widespread. But in Germany, the Muslim minority are overwhelmingly Turks, who have little loyalty to the Palestinians; after all, Turkey, once the Arab world's imperial master, is a member of NATO and has long co-operated with Israel. And the Shia Muslims of Lebanese or Iranian origin have no particular interest in the Sunni Muslims of the Maghreb, with their Algerian civil war or the Moroccan annexation of the Western Sahara, both subjects close to the hearts of the majority of French Muslims who are of North African origin.

But what most of Western Europe's 12.5m-odd Muslims do share is a feeling of exclusion and of being done down. They are much more likely than their non-Muslim (and mainly white) peers to be jobless and ill-educated, their young men more likely to be harassed by the police on suspicion of drug-dealing or petty crime. As they lose touch with the lands of their parents yet feel shunned by their countries of adoption or birth, it is natural that young Muslims should turn to Islam as a badge of identity; Europe's determined secularism only sharpens the tendency. Certainly, Islamic extremism is very rare: in Britain, for example, out of some 1,500 mosques, only two are known to be run by extremists. But many young Muslims have a sense of alienation, which could, if things go wrong, tip them towards violence.

Indeed, in many countries, co-existence (even, in some places, self-segregation) looks a more realistic bet than assimilation and integration. Germany, for example, has some 3.2m Muslims in its population of 82m, and until recently made singularly little effort to integrate them. It was not until last year, for instance, that German law gave an automatic right to citizenship to children born in Germany to foreign parents. Among Britain's 2m-odd Muslims (perhaps half of them under 18, in a population of nearly 60m), there are some recently-settled refugees from Afghanistan, Iran, Iraq, Somalia and elsewhere. But two of the largest and most established Muslim communities, the Pakistanis and Bangladeshis, have eschewed the tendency of most immigrant groups to assimilate, becoming more rather than less segregated over time.



In France, with a population of around 60m too, the traditional pretence is that the 4m-5m Muslim residents, most of them North African immigrants or their offspring, will over time become like the white *Français de souche*, Frenchmen of “true stock”, as some on the right put it. After all, since French culture is so obviously superior to any other, it seems self-evident that all who can will adopt it.

Meanwhile, Spain, with around 500,000 Muslims legally resident (and perhaps another 200,000 illegally so) in a population of 40m, is only now realising that its Muslim workers will not necessarily make some money and then go back to the Maghreb, but are increasingly in Spain to stay.

Muslims are themselves diverse

These differences of approach and attitude stem from each country's different history. Some 2.5m of Germany's Muslims are Turks, originally invited as *Gastarbeiter* (guest workers) to help power the nation's post-war economic miracle. They were meant to be temporary but by 1973, when Germany closed its borders to new foreign workers, 1m poorly-educated Turks had chosen to stay in their German ghettos and brought spouses and other family members to join them. Today, 61% of Germany's Turks were born in Germany or have lived there for more than 20 years. Like Britain's Muslims, they are disproportionately young: almost half of Germany's Turks are under the age of 30.

France, because its colonial dominance of the North African Maghreb began in the 19th century, has a much longer history of Muslim immigration. Yet there, too, the major waves of immigration came to provide cheap labour, especially in the factories but also in the fields, during the economic boom that followed the second world war. Britain's experience was similar. Many Pakistanis and Bangladeshis came to England after the second world war to work in the northern textile mills, and have suffered particularly from those industries' collapse. Compared to Anglo-Indians, the Pakistanis and Bangladeshis suffer higher unemployment and lower achievement in school. The consequent alienation among many Muslims helped lead last summer, in the English north, to the worst race riots in Britain for decades.

Spain's experience of Islam is much longer and more complex. Colouring everything is the fact that the Arabs—“the Moors”—invaded Spain in 711 and were dominant or prominent there until, in 1492, King Ferdinand and Queen Isabella expelled them. This legacy still shapes Spanish attitudes today. In a survey carried out last year by the government's own think-tank, half the respondents described their own society as “quite or very racist”; most Spaniards prefer to stress their European identity and to play down their Moorish past.

Such cultural chauvinism is not always innocuous. It led last year to two days and nights of rioting in the small Andalusian town of El Ejido, where some 15,000 North African immigrants, most of them men and only a third of them legally there, live in squalor while working on the area's vegetable farms. After a

Spanish woman was murdered by a mentally-disturbed immigrant, enraged Spaniards looted and burned down the immigrants' shacks, shops and mosques, while the local authorities reacted with apparently deliberate slowness.

Could such riots have happened in France or Germany? These days, it seems unlikely. For one thing, the equivalents of Spain's male-dominated shanty towns of immigrants coming to work the fields no longer exist. The Moroccans and Algerians who once came to pick the grapes in France's southern vineyards are now settling, in their public-housing estates, into retirement. The immigrant quarters of cities in France, Germany and Britain are so long established that they are an accepted part of the landscape.

But familiarity breeds only a certain amount of acceptance. The immigrant parts of Europe's cities, whether the horrendous tower blocks of La Courneuve, outside Paris, or the terraced streets of Oldham, in Manchester, are separate and foreign places. In Britain, the Pakistani and Bangladeshi communities are becoming more segregated, partly because unemployment has trapped people, partly because of the widespread practice of bringing in brides from overseas.

Mosaic more than melting-pot, then?

Muslim representation in European countries' parliaments is still very low: there are only two Muslim MPs in Britain's lower house, one in Germany's (plus an ethnic Turk who eschews Islam), none in France's. The Dutch may do best, with seven in their 150-strong lower house (though similar tensions are growing in the Netherlands as elsewhere). It is probably true, across the continent, that black citizens and those of Indian (mainly Hindu) descent are more integrated into public life.

Although most countries in the EU virtually closed their borders to non-European immigration as long ago as the early 1970s, ethnic minorities have grown in size thanks both to natural increase and to the arrival of spouses and other family members from abroad. That has helped spur Europe's far right and has made it politically respectable for governments of all parties to tighten rules on immigration and asylum. Meanwhile, racist incidents, from graffiti-scrawling to murder, have gone up. In Germany, for example, there was a 40% increase in reported racist crimes last year. Moreover, pollsters say that some 14% of the EU's people admit to being “intolerant” of minorities; another 25% say they are “ambivalent”.

In retrospect, therefore, it is hardly surprising that a minority (albeit very small) of Europe's Muslim young should turn to terrorism or should fight in Bosnia or Chechnya or Afghanistan. In Britain, some community leaders have reported an enthusiasm among a few young men to proffer their services in Afghanistan, as others are known to have done previously on behalf of violent Islamic groups in Yemen and elsewhere.

Nor is it surprising, given the freedom of movement within the EU, that their networks should span Europe's frontiers, from Germany to Belgium and from England to France and even to Scandinavia. The question is to what extent they swim in a sea of sympathisers. The mufti of Marseilles argues that in those parts of the Muslim world—in Algeria, Egypt and Afghanistan—where people “have tasted this criminal fundamentalism, they have been completely disgusted by it...Today, this kind of Islamism is in decline.” But he adds more bleakly: “I just hope that this American retaliation won't be an opportunity for its renaissance.”

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Slovenia online

Brave new world

Oct 18th 2001 | LJUBLJANA
From The Economist print edition

Slovenia may be Europe's most Internetted government

DIMITRIJ RUPEL, the foreign minister of Slovenia, a small country at the eastern end of the Alps that managed to slide peacefully out of what was Yugoslavia and into something that more closely resembles Austria, enjoys showing visitors round his office. At one end sits a computer wired to the Slovenian secret-service mainframe. Mr Rupel says he is one of only four people in the country who get messages on such a machine. They come twice a day, and he must read them at a sitting. “There's no way to save them or print them out,” he explains.

At the other end of his office, a slinky black laptop takes pride of place on his desk. Mr Rupel boots it up and shows off a software system that allows him access to almost everything and everyone he needs in the Slovenian government. In between promoting Slovenia's bid to join the European Union and NATO Mr Rupel says he taps away on his laptop for up to three hours a day. In the mornings he shoots off messages to other ministers and answers e-mail from ordinary citizens. In the evenings he sometimes pecks out a column with his personal view of world diplomacy which he then pastes on to the Slovenian foreign ministry's own website.

His office, like those of other Slovenian ministers, is almost paperless. Every official document comes to him electronically. Mr Rupel used to lug a “pile of papers half a metre high” to cabinet meetings. Now he takes only his laptop.

That is, if he goes at all: Slovenia is pioneering electronic government by holding most of its cabinet meetings online. Each of the country's 15 cabinet ministers receives cabinet business over a secure system. A message informs them of the topic under discussion—say, privatisation—and lets them vote by clicking a button. They can attach a note and send it to other cabinet colleagues or, if deviousness seems called for, cut their colleagues out of the loop and just message the prime minister, Janez Drnovsek.

The technology, Mr Rupel concedes, has some snags. It is a grind: ministers feel obliged to log on and vote in e-cabinet sessions even when on holiday. No more waffling either. In the good old days of paper, a flustered minister could claim not to have received the relevant document. Now the all-knowing system records exactly which files ministers receive—and when and whether they open them.

Ministers feel obliged to vote in e-cabinet meetings even when on holiday

Change has been rapid. Pavel Gantar, the minister for all things high-tech, recalls buying his first computer in Munich in 1985 and having to smuggle it back to Ljubljana when it was part of a communist state. “An age ago,” he says wistfully. Even a couple of years ago most ministers were computer-illiterate, so they had to let their secretaries handle their e-mails. Now, reckons Mr Gantar, all of them personally attend to their mailboxes.

Things really took off when Mr Drnovsek, a communist-turned-social-democrat who has been prime minister with a small break since 1992, discovered the Internet. “When he e-mails you,” admits one minister, “you'd better work out how to reply.”

What next? Slovenian ministers already complain of having their evenings at home in front of the football interrupted by the vibrating of their mobile phone, with a text message reminding them of the next day's e-cabinet business. The prime minister is apparently not averse to text-messaging ministers himself.

So will virtual cabinet meetings completely replace the real thing? Mr Gantar thinks not. “Body language means a lot and e-mail obscures that.” The cabinet still meets face to face every Thursday to thrash out

issues unresolved online, though some ministers usually attend from afar, by videophone.

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The opposition in Germany

Merkel on the brink

Oct 18th 2001
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Germany's opposition leader may not be able to keep her job much longer

ONLY 18 months after her rapturous acclamation as the opposition Christian Democrats' new leader, Angela Merkel is fighting for her political life. If her party performs very badly in this weekend's city-state election in Berlin, she may be ruled out as the centre-right's candidate for chancellor in next year's general election. And that would mean that her days as party leader would probably be numbered too.

Many of her opponents within the party have long been sharpening their knives. The pastor's daughter from Germany's formerly communist eastern part has never managed to impose her authority on the party dominated for 25 years by the formidable Helmut Kohl, who was chancellor for 16 of them. She has made one tactical mistake after another. She has failed to display the leadership needed to lift the scandal-shaken party out of the doldrums and back into power. Her standing in the polls is abysmally low.

As Mrs Merkel's star has waned, so that of Edmund Stoiber, leader of the Christian Social Union, the Christian Democrats' Bavarian sister party, has brightened. As leader of much the biggest party on Germany's centre-right, Mrs Merkel would normally expect to lead the centre-right alliance into battle against Chancellor Gerhard Schröder in next year's election. But a feeling is growing in both main parties of the right that they will not stand a chance unless the more experienced and articulate Mr Stoiber takes on the job. Three-quarters of the supporters of Mrs Merkel's own Christian Democrats would prefer to have the powerful Bavarian premier as their candidate. Mrs Merkel, they note, has never governed a town, let alone Europe's biggest country.

Possible alternatives within her own party are being mooted, including Volker Rühe, an ambitious former defence minister and Peter Müller, the up-and-coming premier of the Saarland. Mr Stoiber certainly believes himself to be the best candidate—but is still hesitant. He likes being the uncontested boss of his beautiful home state. Moreover, he probably reckons (rightly) that his chances of beating Mr Schröder are slim. The only other Bavarian leader ever to run for the job, Franz Josef Strauss in 1980, lost badly. Yet refusing to come to the centre-right's aid in its hour of need would dent Mr Stoiber's reputation for courage.

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Charlemagne

Guy Verhofstadt

Oct 18th 2001
From The Economist print edition

Belgium's troubled presidency of the European Union

THE European Union summit in Ghent on October 19th should have been a triumphal moment for Guy Verhofstadt, Belgium's prime minister. His country currently holds the EU's six-month presidency and Ghent is where Mr Verhofstadt grew up and went to university. The home-town boy could show Europe the beauties of Ghent, and Ghent the beauties of Europe, while furthering the EU's grand ambitions: putting the final touches to the euro, enlarging the Union to the east, helping to draft a European constitution, arranging a common asylum policy, and so on.

But then came September 11th. At Ghent talk of terrorism and Afghanistan will truncate debates on other subjects. The watching media will find it hard to work up their usual enthusiasm for future-of-Europe stories and instead will be on the alert for signs of a split in the EU's approach to the war on terrorism. Unhelpfully for Mr Verhofstadt, his own foreign minister, Louis Michel, has chosen the run-up to the summit to furnish the first evidence of that split by scolding Tony Blair for being “too bellicose” and asserting that the rest of Europe will not follow Britain and America “blindfold”. Mr Verhofstadt's people, clearly embarrassed by Mr Michel's intervention, are saying that—on the contrary—the Ghent summit will see a renewed and resounding assertion of European support for America.

Mr Verhofstadt's problem is that, like several other European heads of government, he leads a coalition. In Belgium, as in Germany, the Greens are getting jumpy about the war (although Mr Michel is a Francophone liberal). So, as the fighting proceeds, European leaders may find themselves moving from the unequivocal support for America of the early days after September 11th to a more awkward balancing act. As well as trying to keep a six-party coalition together, Mr Verhofstadt also has to forge a common position among the EU's 15 governments. He is, as one analyst puts it, “playing chess on several boards at once.”

Forging a common EU response to post-September 11th events is like “playing chess on several boards at once”

Just to make life a little tougher still, the Ghent summit comes against the background of a national rail strike in Belgium and the apparently imminent collapse of Sabena, the national airline. The prime minister, however, will retain his bouncy and upbeat style. Although he is pushing 50, he looks and acts like a man in his 30s—and over his career has proven that he is nothing if not adaptable. For most of his political life, Mr Verhofstadt was regarded as a hardline economic liberal, a rare species in Belgium. After a budget-cutting, deregulating stint as finance minister in the mid-1980s, he was nicknamed “Baby Thatcher”. Ten years later he was still writing fierce articles, demanding that Belgium emulate the economic reforms of northern European countries like Britain, the Netherlands and Ireland, and turn away from the “corporatist Rhineland model” of economic management, which he opined was “condemned to failure”.

Unfortunately for him (and perhaps for Belgium) such fighting talk was not a recipe for political success. After a long stint in opposition and an unexpected election defeat in 1995, Mr Verhofstadt decided the time had come to reinvent himself. He spent over a year in Tuscany and came back announcing that his previous views had been too harsh. The new Verhofstadt swapped suits and ties for designer jackets and T-shirts, and started to hang out with artists and writers. Political models were also traded in. Out went Thatcher, in came Blair and the “third way”. Mr Verhofstadt even imitated Blairite methods of media management, employing a fearsome new spin-doctor called Noel Slangen, whose surname in Flemish means snake. The new, more consensual, Verhofstadt proved more congenial to his countrymen. In 1999 he finally became prime minister.

How about an even bigger job in Brussels?

If his domestic political position is now much more typically Belgian, with its emphasis on consensus and the “European social model”, his views on the EU are also firmly in the national tradition. As founder members of the EU's forerunners, the Belgians have always been among the keenest for Europe to integrate. Just before taking the EU's presidency, Mr Verhofstadt gave a speech in which he called for, among other things, a common defence policy, a common socio-economic policy and the direct election of the president of the European Commission, the EU's policymaking bureaucracy. He also declared that the euro, Europe's single currency, heralded some kind of political union and ascribed its early weakness to “the absence of a common socio-economic policy and the absence also of a genuine political union...There are countries without a currency but there are no currencies without a country.” Of course, he added, some things should remain the preserve of nation states. But his list—sport, culture and education—seemed rather short.

Such views sound like a recipe for heart failure in Downing Street. But Mr Verhofstadt is keen to keep the British sweet during his country's presidency. In the summer he formed a five-person group to advise him on Europe's political future and made sure it had a British member (though, interestingly, no German one). But in the long run there will be no disguising the fact that British and Belgian views of the matter are poles apart. For now, however, Mr Verhofstadt wants to push the debate on Europe forward and in particular to win agreement for a constitutional convention—without openly rowing with the British.

Like many a past Belgian prime minister, Mr Verhofstadt seems to enjoy striding the European stage. He might even fancy Romano Prodi's job as head of the European Commission in 2005. Certainly there are some in Belgium who think that, for all his talk of “bringing politics closer to the people”, their prime minister is becoming a little grand. Eyebrows shot up recently in Brussels when the prime minister's people suggested that he could move out of the prime minister's traditional office at 16 Rue de la Loi and into a convenient palace—next to the king's.

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Britain, America and Europe

That very useful Tony Blair

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AP

Tony Blair's excellent performance as America's ambassador to the world is winning him popularity rather than influence

IN 1917, Lord Balfour, Britain's foreign secretary, wrote that “His Majesty's government view with favour” the establishment of a national home for the Jewish people in Palestine. On October 15th this week, Tony Blair declared in Downing Street, with Yasser Arafat at his side, that Britain now favoured the creation of a “viable Palestinian state”. Historic, or what?

What. Creating an independent Palestine alongside Israel has been British policy for many years. It has been European Union policy for many years. It has been American policy for many years. It has even been the policy of Israeli (Labour) governments for many years. The devil is all in the detail that Mr Blair did not mention: borders, refugees, Jewish settlements, the holy places and so on. But Mr Blair's silence on such details scarcely matters. This was less a substantive British initiative on Palestine than another virtuoso performance in Mr Blair's role as chief allied propagandist in the American-led war against Osama bin Laden.

In recent weeks, Mr Blair, a silver-tongued lawyer, has won golden opinions from the American newspapers, a few of which have been worried by George Bush's tendency to grope for words and then come up with the wrong one (“crusade”). An American president would not choose to submit himself, as Mr Blair did last week, to a semi-hostile TV interview with Al Jazeera, the Qatar-based TV network that Mr bin Laden uses to put out his messages. But it is not primarily his eloquence that makes Britain's prime minister so useful to the Americans. It is his comparative freedom of manoeuvre.

The leader of the free world can certainly say, as Mr Bush did recently, that he favours the creation of a Palestinian state. But America's domestic politics make it hard for him to summon Mr Arafat back to the White House while the *intifada* still smoulders. Mr Blair has no such constraint. He can invite guests who would be unwelcome in Washington; disclose information the Americans prefer not to (such as the dossier of evidence said to implicate Mr bin Laden's al-Qaeda group); and get to places that American diplomacy cannot reach (as when he sent Jack Straw, his foreign secretary, to Iran).

Mr Blair is constrained neither by domestic politics—Iain Duncan Smith, the leader of the Conservative opposition, is trying to be even more pro-American than he is—nor by Britain's membership of the EU. Although Louis Michel, the excessively prominent Belgian foreign minister, this week accused Mr Blair of “grandstanding” since September 11th, few other mainland politicians have complained about Britain's prominent role in the war effort.

One reason for this, says Charles Grant, director of a London-based think-tank, the Centre for European

Reform, is that Mr Blair's EU partners welcome having a European voice that is listened to in Washington, for none of them has a similar *entrée*. Germany's chancellor, Gerhard Schröder, has less military firepower to put at America's disposal, and needs to mollify the Greens in his coalition. France is hobbled by a double rivalry: between Prime Minister Lionel Jospin and President Jacques Chirac; and between the Defence Ministry, which would like to do some fighting, and the Quai d'Orsay, which prefers to maintain a proper Gaullist distance from anything invented in America.

Naturally, Mr Blair is not wholly without critics at home. In Westminster and Whitehall, and not only on the streets and in newspapers, there are mutterings of dissent. The Tories may be solid, but in the House of Commons this week half a dozen Labour MPs, including a handful who are not just the usual suspects, expressed dismay at the bombing of Afghanistan. In Whitehall there are people from the Foreign Office who fret in private about the balance of the power.

The balance they have in mind, however, is that between the Foreign Office and Downing Street. Since September 11th, goes this complaint, historic decisions are being made (literally) on the fly by a clique of Downing Street officials, such as Jonathan Powell, Mr Blair's chief of staff, and Alastair Campbell, his spin doctor, who have been criss-crossing the world alongside an admiring press corps in the prime minister's aircraft. Even before September 11th, Mr Blair had appointed a senior foreign-policy adviser (Sir David Manning) and adviser on European affairs (Sir Stephen Wall) to Downing Street just when the Foreign Office was adjusting to the arrival of Mr Straw, an able politician but one untutored in foreign affairs.

For the present, none of this matters much. It is the way of war to add to the power of the prime minister and subtract from the power of foreign secretaries. The Napoleonic wars are associated with the premiership of Pitt, not the diplomacy of Castlereagh. Besides, what Mr Blair is doing is popular. A MORI poll on October 11th found that 72% approve of the way he has handled the British response to the terrorist attacks. Moreover, 71% think that Britain was right to join America in the military strikes in Afghanistan, even though 59% think that this has made terrorist attacks against Britain itself more likely.

Mr Blair's freedom of action plainly makes him a useful stalking horse, front man, ambassador and advocate for Mr Bush. Less clear is what Britain is getting in return, apart from promotion up the list of probable terrorist targets. Peace in Northern Ireland? Possibly (see article). Influence? Harold Macmillan once said that Britain should offer the wisdom of Greece to the Americans' Roman might. Some British editorialists give Mr Blair the credit for talking Mr Bush out of an attack on Iraq and into the idea that the United Nations could play a part in nation-building in a post-Taliban Afghanistan. But in both cases Colin Powell, Mr Bush's secretary of state, was probably a more influential voice on the same side of the argument. And who is to say whether a strike on Iraq will not yet come?

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Anti-terrorism law

My friend's enemy

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A proposed new anti-terrorism law will mean expelling some old allies

MOST evenings, one of the likely targets of Britain's new anti-terrorist measures can be found enjoying a cappuccino in a Starbucks café in the London suburb of Golders Green. He wears a tie, the better—says a 180-page manual on *jihad* recovered by police—to blend into western society. He keeps his beard as discreet as a morning shadow. He has fought Russians in Afghanistan and sought to overthrow Libya's leader, Muammar Qaddafi. And for the past six years he has found sanctuary in Britain.

He may not be here for much longer. In response to the New York attacks, the home secretary, David Blunkett, unveiled a tough package of legislation to Parliament on October 15th designed to end "hospitality for terrorists". Extradition procedures, he said, would be streamlined. Suspected terrorists would be denied asylum and foreign nationals deemed a threat to national security would be detained.

Starbucks's patron would almost certainly fall foul of this law. The Islamic Fighting Group (IFG), of which Libya says he is a member, admits to carrying out a series of attacks inside Libya, including two bloody attempts to assassinate Mr Qaddafi. He has trained in Arab camps in Afghanistan during the Soviet occupation, and claims to know how many Stinger missiles remain in Taliban hands. His name is on a list of 20 IFG associates of Osama bin Laden's which Libya gave America earlier this month.

But for decades, he and British governments were on the same side, united in a mutual hostility to Mr Qaddafi and the Soviet occupation of Afghanistan. Britain gave the IFG a base from which to operate without interference, says Mustafa Alani, a London-based terrorism expert. The links date back to the 1960s, when Britain and America had military bases in Libya, and the defence minister was the grandfather of Starbucks's patron.

But now that Britain is sort-of at war, its enemy's enemy is its friend. Mr Qaddafi may still be the despot of a terrorist state, but he is also Britain's partner in the anti-terrorist war. Echoing America, Mr Qaddafi rails at the Islamist militants bent on turning the Mediterranean's southern coast into a Taliban enclave. His intelligence chief, Musa Kusa, hitherto banned from London for liquidating exiles, is now welcomed for joint talks with America on ways to smoke out Mr bin Laden. And, to Mr Qaddafi's delight, America has added the IFG, Libya's most potent dissident group, to its list of terrorist organisations. He wants America to go further, and bomb London for harbouring terrorists.

The British government says it is reviewing whether to add the IFG to its list of 21 proscribed terrorist groups. An IFG member, Anas al Liby, has already fled Britain after police raided his Manchester home and found that *jihad* manual, which included instructions on "how to assassinate using a knife." Mr al Liby, says the FBI, was involved in the 1998 bombings of the two American embassies in Africa. It is offering a $5m reward for his arrest.

Starbucks's patron insists the IFG has never carried out an attack outside Libya. Nor, according to Amnesty International, has it targeted civilians. And how can anything but armed struggle bring down Mr Qaddafi, he asks? As a student in Tripoli, he saw the carcass of a relative dangling on a campus gallows. He abandoned a life of swimming pools for the hardships of a guerrilla. England killed a king for democracy and freedom. Are not Libyans also entitled to topple a tyrant?

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Northern Ireland

Made in Manhattan

Oct 18th 2001 | NEW YORK
From The Economist print edition

The IRA's American supporters will not tolerate a return to violence

Reuters

FOR Northern Ireland's peace process, this is the best of times and the worst of times. The three-year-old Good Friday Agreement appears to be in crisis (again), with Unionists threatening to pull out of the Northern Ireland Assembly and suspension of the Assembly imminent. But, at the same time, there are signs that the IRA might be about to restart the peace process by decommissioning its weapons.

Ministers in Dublin have told a London-based journalist that they have had intelligence suggesting that the IRA's ruling Army Council has already taken the decision in principle and is waiting for the right time to make the move. Security sources in Belfast say they are expecting it. Last week Tony Blair took time off from fighting global terrorism to see Sinn Fein's Gerry Adams and Martin McGuinness, apparently to discuss the detailed choreography to accompany an IRA move.

If the IRA does start disarming the reason can be found not in the quarrelsome chamber of the Stormont parliament in Belfast nor on the troubled streets of that city but in the wreckage of lower Manhattan. Before September 11th, the threat of a possible return to war was implicit in the peace negotiations. Now the IRA knows that it cannot start up again and retain the support of its American backers. That changes everything.

The people who matter to the IRA are the Irish-American executives and congressional power-brokers whose support for Mr Adams's peace strategy secured for him the backing of the Clinton White House and opened generous cheque books to his party, Sinn Fein. Now that they know what dealing with terrorists is like, their tolerance of the IRA's reluctance to shift has evaporated. Tony Blair's stalwart support for America has further increased pressure on the IRA.

“I think things have changed fundamentally,” said Jack Holland, author of a noted history of the Irish troubles, “Hope Against History”, and senior editor of the *Irish Echo*, New York's Irish-American newspaper. “The romantic view of a battlefield 2,500 miles away has gone, replaced by what we see at first hand. And the fact that the Provos are still sitting on some 100 tonnes of weapons, a gift from another Arab dictator, Qaddafi, doesn't play well.”

“There definitely has been a shift,” says a member of Rudolph Giuliani's administration at City Hall in New York, who is also a long-time backer of the Irish Republican cause in the city. “The feeling is that now is the time to do it...People are asking why it is necessary to hoard weapons when they could only be used against Tony Blair who is one of our strongest allies, someone who is on television here a lot and who seems to many people to be a reasonable man?”

Earlier this month the powerful National Committee on American Foreign Policy issued a tetchy statement demanding that the peace process be speedily concluded with a start to decommissioning. Its honorary chairman, the head of Liberty Mutual Insurance, Bill Flynn, helped secure the first visa for Mr Adams to visit New York. He also introduced him to many of the big Irish-American businessmen who have bankrolled the party's recent electoral successes in Ireland.

Mr Flynn's impatience betrays a deeper fear about the good faith of Sinn Fein's leadership—a niggling doubt as to whether Mr Adams's backers were tricked into supporting a process in which the IRA retained the option of a return to violence. September 11th has brought such questions to the surface. “People

like him feel badly let down by Adams," says Mr Holland. "They are asking were they conned and now they want actions to prove otherwise."

Even among Mr Adams's least-critical Washington friends, there is a conviction that the time has come for the IRA to move. Peter King, a Republican Congressman and friend of Mr Adams's since the IRA hunger strikes in 1981, and possibly Sinn Fein's strongest ally on Capitol Hill, says that if the IRA delays much longer then the party's political and financial support will start to drain away. "There is a sense that if the IRA has decided to do it then it should do it now, the sooner the better," he says. "America is looking at this with a greater sense of urgency than ever before."

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Scots abroad

Keep your kilt to yourself

Oct 18th 2001 | EDINBURGH
From The Economist print edition

Why the Scottish diaspora doesn't care

WHY does Scotland fail to tug at the heartstrings of Scottish-descended Americans in the way that Ireland moves Irish-Americans? This question has long troubled politicians and businessmen north of the border. Ministers in the Scottish Executive are currently making a new effort to persuade Scottish-Americans to be more fervent about their roots. But history suggests that this is likely to meet with the same lukewarm response that other such efforts have had.

The latest plans to mobilise the 5.4m Americans who claim Scottish descent include a website which is currently being set up. It will be fully furnished with ready-to-use speeches about the glories of the homeland for committed Scots to try out on audiences abroad. Ministers hope it will boost Scottish exports and encourage root-seeking tourism when Americans get over their current fear of flying.

Why does the Scottish diaspora need wooing, when 33m Irish-American breasts swell with romantic pride at the thought of their origins? The difference is not the result of clever marketing by the Irish: it lies in the different ways Scottish and Irish migration came about.

About 5m Irish went to America between 1841 and 1925. Most were driven out, either by famine or by landlords clearing their estates for more profitable crops.

About 2m Scots set sail for America between 1850 and 1939. Conventional wisdom blames this exodus on clearances in the Scottish Highlands by rapacious English landlords. But Tom Devine, director of the Institute of Scottish and Irish Studies at Aberdeen University, who is lecturing on this subject at Columbia University, New York, on October 26th, says that 90% of emigrants post-1850 were lowlanders and city-dwellers driven by ambition rather than the English.

“Right from the medieval period, there was a culture of mobility in Scotland,” says Mr Devine. Young graduate clerics and doctors were used to the idea of travelling and working in Europe. These adventurers were joined in the 19th century by skilled workers who had learned their trade in Scotland's industrial revolution but saw that better wages were to be had elsewhere.

The differences persisted in America. Irish migrants tended to be unskilled and poor (and Democrats). Perceiving themselves as forced into exile by the English, they consoled themselves by supporting the cause of Irish liberation. The Scots, on the other hand, had left voluntarily. Many of them had a bit of capital and rose easily through American society (and joined the Republican Party). According to Mr Devine, Scottish-Americans therefore tend to assume that Scotland is a miserable left-wing place that the enterprising leave. Ye bonnie banks and braes may be a hard sell to that lot.

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Railtrack

Where's the money coming from?

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Despite the City's fury, Railtrack's demise may make it easier to raise private money for rail. The problem is the black hole the public sector will have to fill

THE way Railtrack was put down has done the career of Stephen Byers, the transport secretary, no good. Investors were angry that their shares were apparently rendered valueless overnight, and the company was furious that the announcement was made with no consultation. For passengers and taxpayers, however, the only important question is whether the way Railtrack was dealt with will make it harder, and therefore more expensive, to raise private sector finance for the railways in future.

The railways need plenty of private sector money. In the ten-year transport plan which it published last year, the government announced £49 billion of new investment to accommodate a 50% increase in train travel over the next decade. The plan included large government handouts for two huge projects, the Channel Tunnel Rail Link and the West Coast main line. Otherwise, it assumed that the private sector would provide around £23.5 billion of the estimated £31 billion cost of upgrading the rest of the network (see table). The plan assumed that rising numbers of passengers would bring in increasing revenues, which would pay for the private capital.

Before long it became clear that these plans were unrealistic. As Railtrack's financial position deteriorated, it could no longer raise fresh equity or debt finance. In addition, the government's unwillingness to make decisions about the renewal of train operators' franchises meant they could not go ahead with long-term investments. According to insiders, the Treasury had not even given the Strategic Rail Authority the cash it needed to process deals on the re-letting of three franchises that had been agreed in principle with successful bidders. In short, even before Railtrack's demise, it was clear that the transport plan for rail could not work.

The gravy train

Funding for the railways, £bn, 2001-10

	Public sector	Private sector	Total
Infrastructure upgrades			
Channel Tunnel Rail Link	3.5	2.0	5.5
West Coast main line	4.0	-	4.0
Rest of network	7.5	23.5	31.0
New trains	-	8.5	8.5
Total	15.0	34.0	49.0

Source: DTLR, *Transport 2010 - The 10 Year Plan*

Now Mr Byers's immediate tasks are to devise a new railways structure that serves passengers better and to ensure that the railways can still raise the private finance that his plans envisaged. The two are interlinked: no investors will be willing to put in money until Mr Byers comes up with a credible new shape for the industry that avoids the pitfalls of the privatisation model.

The plans for a new structure remain vague. The number of train operators is likely to be reduced so that they can work more closely with Railtrack's regional operations; but the scheme will probably not be mapped out in detail for a year or more.

In the meantime, the new Railtrack CLG (company limited by guarantee), which is to be financed through the bond market, will be responsible for operating, maintaining and renewing the network. Railtrack CLG will not undertake any big upgrading projects, which are inherently risky. Railtrack PLC's demise was in part the result of an increase in the cost of upgrading the West Coast main line, which rose from an original £2.3 billion to around £7 billion. The government argues that, since it does not have to bear the costs of such huge projects, the new Railtrack will be less risky than the old one.

To undertake such big network upgrades, Mr Byers is proposing to adopt an idea for raising long-term private finance that was developed before Railtrack's collapse. This is the creation of so-called “special purpose vehicles”, which are consortia, involving, for instance, infrastructure companies such as Bechtel,

a big American contractor, to undertake specific projects. These consortia, which would have the clout to raise debt finance at low rates, would assume the risk of cost overruns and the responsibility for finishing projects on time.

Railtrack CLG, then, would manage the rest of the railway. But if it is to raise the billions the ten-year plan envisaged, the government will have to reassure a nervous debt market.

Mr Byers should be able to persuade the bond market that the future revenues of the new company, which will mostly come from the train operators, will be predictable. The bigger problem lies in the uncertainty of the future costs of running the rail network. In the aftermath of the crash at Hatfield last year, which exposed a crumbling network suffering from decades of underinvestment, there is some uncertainty as to what these actually are. In order to reassure the bond market, the government may provide a cushion—a capped, but committed, loan facility. This loan has not yet been quantified, and it remains to be seen whether this commitment will convince the bond market.

The crash at Hatfield last year exposed a crumbling network suffering from decades of underinvestment

Some financial experts, though recognising short-term difficulties in raising private money, take the view that in the longer-term there could be upside in the demise of Railtrack PLC. “So long as the government establishes the new structure with a financial cushion, this could and should be a step forward not a step back,” says Tony Poulter, head of project finance at PricewaterhouseCoopers. “It need not be more expensive to raise money, though lenders are bound to take a more rigorous look at the structure.”

This should create a comfortable enough environment for private capital, but it shifts the burden of several large uncertainties on to the government. How big will the cushion be? Where will the money for it come from? And, most important, how large is the hole in the plans that emerged after the Hatfield crash? Nobody seems to know the answers, or if they do, they aren't telling.

The government cannot afford to go into the next election without devising a better way to run Britain's railways, but it has said that it will not provide more money for the railways than it set out in its ten-year transport plan. Reconciling the two may be hard.

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Bagehot

The trap of ideas

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Today's Tories think too much. They did better as the stupid party

ROBERT SKIDELSKY'S resignation from the Conservative Party this week was no big deal. He was not in the party for long, having joined from the Social Democrats in 1992. Nor did he rise to a giddy height: the zenith of his career was to become Treasury spokesman in the House of Lords, a job that ended in 1999. He will of course be remembered long after most of the present Tory leadership is dead, as in the long run they all will be. But that is a tribute to his scholarship—he is the author of a magisterial biography of Keynes—rather than to his politics.

The curious thing about Lord Skidelsky's resignation is not his going but the reasons he gives for going. He claims that the Tories have lately become “hysterically” Europhobic and xenophobic. So far, so familiar: previous defectors, such as Shaun Woodward, the former Tory MP for Witney, have said much the same. But Lord Skidelsky adds a novel twist. He says also that his party has become “anti-intellectual”. This is curious mainly because, to Bagehot's mind, the opposite is the case. What ails the Tories is that, like many political parties stuck hopelessly in opposition—but unlike their true selves—they have come to take ideas too seriously for their own good.

To call a political party “intellectual” has little to do with how much brainpower it possesses. A party needs a mix of types and talents. Despite their reputation as the “stupid” party, the Tories have this mix. This week, in his first question-time clash with Tony Blair in the Commons, Iain Duncan Smith lived down to expectations. The new leader will never acquire the quick brain or smooth tongue of William Hague, the man he replaced. But he has put into his shadow cabinet ample donnish talent of the Skidelsky sort. David Willetts, the spokesman for work and pensions, is routinely teased for having “two brains”. Oliver Letwin, whom Mr Duncan Smith has made shadow home secretary, taught philosophy at Cambridge and Princeton and is probably one of the cleverest men in Parliament. Unnoticed in the general disaster, June's general election brought in a crop of bright new Tory MPs from safe seats—the likes of George Osborne for Tatton and Paul Goodman for Wycombe—young enough to stand the party in good stead when it eventually wins power.

Being clever is, however, a mixed blessing in a politician, especially in a Conservative one. In the late 1960s, Tories considered the brilliant Iain Macleod too clever by half to be their leader. Often, the mistake such men make is not that they produce ideas but that they forget the need to keep even good ideas firmly in their place. Mr Letwin, for example, forgot just this in last June's general election. The party had decided for tactical reasons to play down the difference between its spending plans and those of Labour. But the honourable Mr Letwin, a true and deep believer in the philosophical superiority of a smaller state, could not prevent himself from blurting out to a newspaper that if a Conservative government came back it would lop away tens of billions of pounds in public spending. For the rest of the campaign, his own party had to keep one of the cleverest men in Parliament hidden away from a scornful press.

As with Mr Letwin, so with the party as a whole. Politicians need ideas, but ought not to be in thrall to them, as today's Tories are. Consider Europe. Tory scepticism should work to the party's advantage, since most voters are sceptics too. But the party has turned a preference into a shibboleth. One faction swears that Britain's sovereignty and independence will disappear if it goes deeper into Europe; another that Britain's prosperity and influence are doomed if it fails to. It is not only the schism that turns voters off; the vehemence of it seems scary, weird and disproportionate. Or consider the recent leadership election. This was less a choice between men than a choice between ideologies: for Europe (Kenneth Clarke), against (Mr Duncan Smith), or for social tolerance (Michael Portillo).

Labour fell under the spell of ideas in the 1980s, when it flirted with socialism. The clever men who run it

now have learned from their mistakes. The leadership choice between Mr Blair and Gordon Brown was decided by who made better box office, not by ideology. Labour has divisions on its own over Europe, but has learned to conceal them. No quarrel about mere ideas is permitted to blunt the appetite for power.

Can the Tories follow suit? One problem for them is the condition of opposition itself. Like his predecessor, Mr Duncan Smith leads a party that does not expect to return to power in the next general election. Languishing on his backbenches are many senior politicians without much to do. They can set up think-tanks, sit on company boards and write novels. But before long they will try to re-invent Conservatism from first principles.

Role reversal

Conservatives of all people should know better than to put much faith in this. As Benjamin Disraeli noted in one of his political novels, Conservatives have a particular problem when it comes to ideas. The problem is that they are not sure what to conserve. This made them into a party without fixed principle, intent largely on the pursuit of power for its own sake. The Tory governments the young Disraeli observed were “an organised hypocrisy” that combined “Tory men and Whig measures”.

In one respect at least, a Disraeli transported through time to the present day would feel at home. He would not have to look far to identify a government without fixed principles. But that government is now a Labour government. Mr Blair says openly that this is one of his party's virtues. Though supposedly anchored in unchanging values, its policies—what it actually does—are dictated by “what works”. It is, in short, an organised hypocrisy, though in this case one that combines Whig men and Tory measures rather than the other way round. With all due respect to Lord Skidelsky, the Tories need to be less fastidious about ideas and more fixated, as they once were, on power itself.

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Microsoft

Extending its tentacles

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As it launches an array of new products, the software giant is changing, and yet its basic instincts are staying much the same

Get article background

A LESS tenacious company might have cancelled the event. But not Microsoft, the world's largest software company. On October 25th, it will release the new version of its flagship computer operating system, Windows XP, at a splashy launch in a theatre in New York. “We want this event to help remind the world that New York still represents strength and determination,” Bill Gates, Microsoft's founder and chief software architect, said recently.

Yet more than anything, Microsoft wants to remind the world that it too is back. It has been through years of internal squabbling and fighting to catch up with the Internet—and, most distracting of all, a long and messy antitrust trial that remains unresolved (although Microsoft has at least now escaped the threat of a break-up). Windows XP is certainly the right product to make that point. Even inveterate trashers of Microsoft's software have been pleasantly surprised. Windows XP is the first consumer version of the 15-year-old program in which crashing does not seem to come as a standard feature.

The Windows XP release is only the most prominent of a whole series of forthcoming Microsoft launches. Two other weighty products will soon hit the market: Visual Studio.NET, a central part of .NET, Microsoft's new software platform for “web services”, the next generation of online offerings, on October 22nd, and the Xbox, a much-hyped video-game console, on November 15th. Next year, the world will get to know such goodies as the TabletPC, .NET MyServices and several new pieces of enterprise and server software.

All this will be accompanied by a steady drumbeat of Microsoft marketing. This will be even more audible than usual, since most other technology firms have slashed their advertising budgets. The company says it will spend around $1 billion on marketing in the months to come. For Windows XP alone, it has set aside $200m for a global TV and print campaign.

What is Microsoft up to? On a purely financial level, the answer is simple: in order to assure its long-term growth, it is moving into new markets, mainly digital entertainment, enterprise software and web services. But there is more to it than that. Microsoft plans to use much the same playbook that made it so successful in PC software to become a serious competitor in these new markets.

Unsurprisingly, the company's rivals and critics are up in arms. AOL Time Warner and others have (unsuccessfully) lobbied the antitrust authorities to file for an injunction blocking the release of Windows XP. And privacy advocates worry that the software giant is on its way to becoming a Big Brother.

If Microsoft wants to keep growing, however, it has little choice, says David Readerman, an analyst at Thomas Weisel Partners, an investment bank. In order to justify its high share price, Microsoft must continue its rapid expansion. Yet this is increasingly difficult, if only because of the law of large numbers (see chart). When Microsoft launched Windows 95 in mid-1995, it had annual revenues of about $6 billion. The blockbuster program drove sales up by almost 50% in the following fiscal year—a feat that Windows XP is unlikely to repeat, given that group revenues are now $25.3 billion.

Worse, Microsoft's main markets are maturing and the entire ground under its empire is shifting. Market researchers expect PC sales worldwide to drop this year and at best to stagnate in 2002. What is more, software is increasingly a service delivered over the Internet, meaning that operating systems are no longer central.

In its quest for growth, Microsoft has picked the juiciest technology markets. Sales of computer and video games, for instance, are expected to grow rapidly—making this a market that will soon eclipse Hollywood's box-office revenue. As for enterprise software, Microsoft hopes to sell programs and services worth $10 billion annually in a decade. And web services are supposed to be the next big thing.

Solid platform

Yet grabbing a chunk of these markets is one thing. Setting their rules is quite another. To understand Microsoft's strategy, it is necessary to look at why it has been so successful. Ahead of the crowd, Bill Gates located the sweet spot in the business of bits and bytes: as the provider of a “platform”. Windows is essentially a collection of building-blocks that developers need to create applications.

Mr Gates also understood better than anybody else how to exploit the economics of such a platform: positive feedback. The more users it has, the more developers will write applications for it, which in turn attracts more users, and so on. That is why Microsoft has always sold its operating system cheaply and has done everything to make life easy for programmers.

However, Microsoft's love of third-party developers has its limits, especially when it wants to add a feature to Windows or enter an application market itself—as vendors of competing word-processing or spreadsheet programs can attest. Microsoft pulled no punches in its quest to make Office the dominant desktop package. This now has a market share of more than 90% and generated almost as much revenue in the past financial year as all desktop versions of Windows put together.

Microsoft has worked hard to hang on to this critical mass. Mr Gates often insisted on imposing a “strategy tax” on its products in order to strengthen Windows and Office, explains David Bank in “Breaking Windows” (The Free Press, 2001), a book on Microsoft's internal struggles. This involved telling the firm's programmers, for example, not to adopt the open standards of the web, but to stick to proprietary formats so that it would be harder for users to switch to other products.

Microsoft's worst traits emerge whenever it senses a threat to its platform. One such threat came from some multimedia software called NSP, created by Intel, that would have made it easier for developers to adapt their programs to other operating systems. A meeting between Mr Gates and Andy Grove, then Intel's chief executive, put an end to it: Mr Grove backed down. But in the case of Netscape's web browser, which could have become an alternative to Windows, Microsoft reacted too late and had to resort to heavier artillery—thus triggering the antitrust trial against it.

Microsoft's worst traits emerge whenever it senses a threat to its platform

Although it is less immediately obvious, Microsoft is similarly approaching its new markets as “platform plays”. For consumers, the Xbox is a video-game console, the first big piece of hardware Microsoft has built (although it has outsourced the manufacturing). For game developers, on the other hand, the machine is a platform that offers everything they could wish for: a hard disk, a high-resolution graphics chip and a broadband Internet connection.

And the Xbox is probably only the beginning: a sort of Trojan horse to establish a platform for digital entertainment, in the words of Richard Doherty, president of the Envisioneering Group, a market-research firm. Although Microsoft denies such grand plans, it presents the Xbox as an “anchor tenant” in the living room, which could one day also deliver music and video. Rumour has it that the company is already working on a home-entertainment hub code-named HomeStation.

Microsoft is certainly investing a lot in creating a positive-feedback loop for the Xbox. PC-like design tools make it much easier to create games for the Xbox than for its main competitor, Sony's PlayStation 2. And Microsoft will sell the Xbox for only $299, well below its component costs. Before breaking even in 2005, the Xbox business will lose $2 billion, estimates Henry Blodget of Merrill Lynch, an investment bank. To recoup this investment, Microsoft will charge licensing fees from game developers and, more importantly, sell games developed in-house.

Across the ether

It is harder to see how the .NET initiative can be considered a platform too. After all, .NET will not run on a single machine, but as a collection of programs spread across the Internet. It has several pieces of "server" software; and "client" programs for different devices, such as PocketPC (for handhelds) and Stinger (for mobile phones). These online services can be anything and everything that processes information: a voice-recognition service, a location and mapping service, a comparison-shopping offering, and so on.

Predictably, the first pure .NET product on the market will be Visual Studio .NET, the tools needed to build web services. Next will come .NET myServices, which developers at other firms can use to create their own offerings. But Microsoft is not limiting itself to offering basic .NET services. So-called "user experiences" will play the role that Office took in the Windows world. These are comprehensive online services for different groups of users. MSN will serve consumers; a .NET version of Office will cater to "knowledge workers"; bCentral will handle small businesses. And for all these, the software giant intends to charge subscription fees.

Will these plans succeed? In terms of technology, Microsoft appears to be on the right track. Game developers generally love the Xbox. But it faces stiff competition in the video-game market, especially from Sony. Even if Microsoft dethrones the Japanese giant, it will struggle to achieve and maintain the same dominance that it has in software. That is because consumers are much more willing to switch consoles than computer platforms.

In terms of technology, Microsoft appears to be on the right track

The situation is much the same in the emerging market for web services. Microsoft's competitors have also put together a platform, based on the Java programming language, which has already caught on in corporate IT. More importantly, the new world of web services does not lend itself naturally to control by a single vendor. The Internet is built round open standards that nobody owns.

Microsoft's executives say that they are aware of all this. In fact, the company has shown surprising openness in recent months. It has helped to develop such web-services standards as XML and SOAP—and has vowed to stick to them. This means, for instance, that devices not running Microsoft software can still access .NET myServices and the like.

Microsoft has made concessions in other areas too. It recently modified a new software-licensing plan, which would have led to steep price increases for some corporate customers. Microsoft will continue to be a kinder giant, predicts Rick Sherlund of Goldman Sachs, an investment bank, if only because "the whole world is watching".

Yet many in the computer world remain suspicious. It is not just that "openness" has often been abused in the industry as a mere tactic—something that a firm embraces when it is coming from behind, but quickly abandons once it has market power. Microsoft, in particular, has been known to "proprietise" open standards by developing versions that run on Windows only. There are "a thousand ways" in which Microsoft can still do this, says Dave Winer, boss of Userland Software and a co-author of the SOAP standard.

It does not help Microsoft's credibility that its new-found faith in openness does not seem to apply to Windows itself. In July it gave PC makers more liberty to alter the opening screen of Windows XP. Yet it quickly made clear that this freedom would have limits. If manufacturers put a shortcut, or "icon", for competing products on the desktop, they must place three Microsoft icons there as well.

It does not help Microsoft's credibility that its new-found faith in openness does not seem to apply to Windows itself

Microsoft's concept of openness is reminiscent of a funnel: easy to get into, but hard to get out of. Visual Studio .NET allows programmers to write software in many different programming languages. But the code the tool generates runs only on .NET. Similarly, .NET myServices can be accessed by any device, but it will be hard for users to switch to competing offerings and still take their data with them.

Microsoft executives justify these lock-ins by saying that they have to make money somehow. Fair enough, but their strategy still looks like an attempt to have their cake and eat it, to be open but stay in control. This may be a solution to Mr Gates's liking, but it is probably not enough to allay widespread

mistrust of the software giant. Nor is it likely to make developers and customers opt for .NET instead of more open platforms such as Java, or even platforms that are based on “open-source” software.

Time to settle

To convince the world that it will henceforth compete on the quality of its products alone, Microsoft must do something more radical. One possibility would be to accept the kind of antitrust settlement that would clearly signal a shift. The two sides in the long-running case have so far failed to settle on their own, so the new trial judge, Colleen Kollar-Kotelly, has appointed a mediator and set a deadline of November 2nd to reach an agreement. If that proves impossible, she will restart court proceedings.

A quick settlement in America would help Microsoft on the European front as well. The European Commission has been hinting that it will play tough. Its antitrust enforcers are seeking both changes in Windows and a big fine, according to a leaked document, because they think that Microsoft has tried to mislead them. Yet it is unlikely that the company will agree to anything that restricts its “right to innovate”—Mr Gates's way of saying that he will not give up control of Windows or any other future platform.

Microsoft's biggest underlying fear is that it will become like IBM—a company that still has a strong business but no longer sets computing standards. However, Microsoft's predecessor as the bad guy of the computer industry is not only a cautionary tale but also a model. After the American government dropped the antitrust trial against IBM in 1982, Big Blue lost its way. Only in the mid-1990s did it find a new mission, as a provider of IT solutions and services. Consequently, IBM is now one of the most outspoken and credible advocates of open standards—and, to Microsoft's chagrin, it is a potential winner in the world of web services.

Microsoft's biggest underlying fear is that it will become like IBM—a company that still has a strong business but no longer sets computing standards

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Enterprise software

Friend or foe?

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The close partnership between Microsoft and SAP is headed for trouble

AP

Plattner prepares to fight

FOR years, Microsoft and Germany's SAP were considered the yin and yang of the software industry, co-operating at every turn. But to the surprise of bystanders at a recent event in Silicon Valley, Hasso Plattner, SAP's chief executive, was heard saying that Microsoft was an important competitor—second only to Siebel, which sells programs to manage customer relationships.

One reason for such fighting talk is Microsoft's purchase, last December, of Great Plains, a medium-sized vendor of enterprise software, SAP's speciality. Microsoft had always assured SAP that it would not move into this market. SAP ought not to feel too threatened by Great Plains, which caters to small business while SAP's main market is large companies. But in the long run, the two might well bump into each other in the market serving mid-sized companies.

SAP and Microsoft will probably compete even earlier in another market: enterprise portals (websites that give employees access to in-house information and applications). SAP has designs on becoming the leading vendor of this technology, which could one day replace the Windows desktop on the opening screen of a PC. This puts SAP and Microsoft on a collision course. Microsoft has ambitions in the enterprise-portal market as well.

What really worries Mr Plattner, however, is the battle between the two computing platforms of the future, Microsoft's .NET and its rival based on Java, backed by IBM, Sun and others. To support both platforms fully, SAP would have to write its software twice, a costly proposition. The firm would certainly like to avoid having to choose camps. It would be natural for SAP to pick the Java platform, which has already taken hold in large companies. But alienating Microsoft could simply encourage it to challenge SAP more aggressively in enterprise software. No wonder Mr Plattner is appealing to both sides to make their platforms more compatible.

If SAP were to plump for Java, Microsoft would have reason to worry: the leanings of a huge competitor can be decisive in such a standards war. In the mid-1980s, for instance, IBM tried to regain control of the PC business with a proprietary technology called Micro Channel. But Compaq stuck with the open solution, and changed the course of the industry. As it happens, SAP and IBM recently announced a technology-swapping alliance. They could soon get even closer—and perhaps even become the industry's next odd couple.

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The wine business

Mixing their drinks

Oct 18th 2001 | ADELAIDE
From The Economist print edition

Brewers and spirits firms have developed a taste for the grape

MERGERS may be out of fashion in most industries, but not in the wine business. In Australia, Lion Nathan, the country's second-largest brewer, has just announced a bid for control of Petaluma, a small quoted wine maker. It looks likely that Allied Domecq, a British company with a large spirits portfolio—and an increasing taste for wine—may also bid for Petaluma. The two contestants are familiar with each other. Earlier this year they fought a bitter struggle for control of Montana, New Zealand's largest wine maker—with Allied Domecq ultimately prevailing.

The desire of brewers and spirits companies to get into wine is new. For many years the beverage giants disdained the drink. The joke was that "two thousand years ago Jesus performed the first miracle by turning water into wine. We're still awaiting the second miracle, which is to turn wine into profit." Whereas the spirits and beer businesses had global brands, wine seemed impossibly fragmented. Its reliance on fickle weather also put off investors, who could not afford to see production slump because of a "bad vintage".

Grape expectations
Selected wine takeovers

Date	Target	Acquirer
Oct-01	Blackstone Winery (US)	BRL Hardy (Aus)
Sep-01	Banksia Wines (Aus)	Lion Nathan (Aus)
Sep-01	Bodegas y Bebidas (Spain)	Allied Domecq (UK)
Aug-01	Montana Wines (NZ)	Allied Domecq (UK)
Feb-01	Montana Wines (NZ)	Lion Nathan (Aus)
Jan-01	Rosemount Estate (Aus)	Southcorp (Aus)
Aug-00	Beringer Blass Wine Estates (US)	Foster's Group (Aus)
Apr-99	Franciscan Estates Wine Brands (US)	Canandaigua (US)
Feb-99	Australian Premium Wines (Aus)	Cranswick Estate Wines (Aus)
Apr-97	Australian Vintage (Aus)	Simeon Wines (Aus)
Apr-96	Coldstream (Aus)	Southcorp (Aus)
Apr-96	Rothbury Wines (Aus)	Foster's Group (Aus)
Dec-95	Mildara Blass (Aus)	Foster's Group (Aus)

Source: Merrill Lynch

Such calculations have now changed. While beer consumption around the world is declining by 1-2% a year, consumption of premium wines (those costing over $6 a bottle) has been rising steadily over the past decade—by over 5% a year in Britain and America. The response among brewers, in particular, has been rapid. In 1995 Foster's, Australia's biggest brewer, bought its first wine company, Mildara Blass of Australia. Since then it has acquired more than 20 wine producers—the biggest being Beringer of California, which cost $1.7 billion last year. Nowadays wine produces 40% of Foster's profits. It claims to be the second most profitable wine producer in the world, after E. & J.Gallo of California.

Companies from the "new world" have also shown that, contrary to received opinion, it is possible to create successful wine brands. Last year the top 15 brands in Britain took 15% of the wine market. That is still fragmented by the standards of spirits or beer, but the trend is clear. Sales of top brands such as Gallo's Turning Leaf and Orlando Wyndham's Jacob's Creek are growing by 20% a year in Britain. The American market is even more oriented to branded wines, with the top 115 wines now accounting for 80% of sales.

That more and more wine is now sold through supermarkets also works in favour of branded wines. Big companies such as Foster's can now promise to supply a range of branded wines—and other beverages—in sufficient quantities to supply entire supermarket chains.

The Australians have proved particularly adept in the branded-wine business. Seven of the top ten brands in Britain are now Australian. Sales of Australian wine increased by 33% in the United States last year—driven by a few powerful brands, such as Rosemount and Lindemans—at a time when domestic sales of Californian wine fell by 1%. The Australians have been aggressively buying up American wine firms, largely to improve their access to the all-important distribution networks for American supermarkets.

Stockmarkets seem to approve of all this activity. Southcorp, which owns the two biggest-selling Australian wine brands in America, has seen its share price increase by over 50% this year. By contrast, Foster's share price has gone up by only around 3%, partly because it is still deemed to be “beer heavy”.

But there are some clouds gathering over new-world vineyards. A recession in America may damp down appetites for pricey chardonnays and cabernet sauvignons. The Australians and other new worlders also fret that their gains at the expense of old-world producers in recent years might end in a hangover. French wine exports have suffered badly, as those of countries such as Australia, South Africa and the United States have risen. Given that words like brand and globalisation are now highly controversial, and that wine is a product loaded with cultural meaning for the French, the new-world lot are bracing for a protectionist backlash.

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Steel producers

Smeltdown

Oct 18th 2001 | NEW YORK
From The Economist print edition

Bethlehem Steel will not be the last in its industry to go bust

Get article background

REFLECTING how truly dire conditions have become for American steel producers, on October 15th the second-largest, Bethlehem Steel, made the most encouraging announcement about its future viability in years—by declaring bankruptcy. The move immediately allowed Bethlehem to receive $450m in new bank financing, ensuring its short-term survival. In the weeks to come, Bethlehem will attempt to renegotiate an agreement covering work rules for its 13,000 employees and, equally important, health-care obligations for 74,000 retirees. If the company can thrash out a deal, it will try to persuade the federal government to provide help on medical costs, tax treatment of losses and more protection against imports.

Bethlehem is now likely to play a role in the consolidation of an industry that is, by any definition, in crisis. Some 20 American steel companies have fallen into bankruptcy since the autumn of 1998, according to Crossroads, a research firm. This year alone, six have gone bust. More announcements seem only a matter of time. Of the 14 steel companies followed by Standard & Poor's, a credit-rating agency, only one, Nucor, is indisputably healthy, and its profits will fall by at least half this year. The bonds of 11 of the 14 are rated as junk; ten have negative outlooks on their ratings and one, Weirton Steel, hovers perilously close to default. “Bethlehem is not alone in its struggles,” observes Robert Miller, a turnaround specialist who was brought in as chief executive on September 24th, after the company's shares had become, in effect, worthless.

The immediate cause of Bethlehem's filing for Chapter 11 was a $152m loss for the third quarter, with no sign of improved prospects. By declaring bankruptcy, Bethlehem will be able to eliminate a crippling layer of costs and emerge a profitable company, says Michelle Galanter Applebaum, an analyst at Salomon Smith Barney, a securities firm. But that may just shift pressure to other producers, because demand for steel is falling along with prices, even as global production continues to rise.

In response to this wretched environment, American steel producers have, as usual, launched bitter diatribes against supposedly dumped steel imports, complaining that these are subsidised either directly, or indirectly because workers in other countries receive health care and pensions from the state. Bethlehem's single largest capital expenditure in recent years has been to bolster an underfunded pension scheme. American producers have also had to face increasingly tough environmental rules. In some cases these could be met by costly modifications. In others, old plants had to be closed—such as Bethlehem's Baltimore mill, which produced coke, the baked coal used to make iron into steel, along with vast clouds of ash and acrid green smoke.

The bankruptcy of Bethlehem, which was founded in 1904, reflects the sad fall of a company that played a big part in America's industrialisation. Bethlehem's mills produced the skeleton framework for the longest bridges and highest skyscrapers. Investors who scooped up stock at $2 a share in the Depression could sell at $60 during the 1950s. The strongest evidence of the company's formidable strength, however, may have been how long it has taken to fall apart.

Bethlehem's brush with bankruptcy will give it another chance, but little more than that. The market is shrinking, and American mills remain saddled with higher production costs than competitors

elsewhere (see chart). For Bethlehem to flourish once again, others will have to disappear instead.

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A new airline

Is Blue Fox cunning or crazy?

Oct 18th 2001
From The Economist print edition

What a time to launch a transatlantic business airline

THE whole thing is steeped in irony. Take the world's most beleaguered industry. Add the warning this week that America's second-biggest airline, United Airlines, might go out of business next year if its current rate of cash drain continues. And then imagine a start-up airline unveiling a radical new service with $530m of private finance, much of it raised since September 11th. This is precisely what Blue Fox, a new transatlantic carrier, has pulled off. If ever there was an example of opportunism in a downturn, this is it.

Whether it pays off is another matter. But the new airline does appear to offer a distinct product at a competitive price. And although it is reluctant to say so, the repercussions from last month's tragedy serve to enhance its business model, as corporate travellers seek an exclusive service that avoids the long check-ins now common at big airports. Operating twice-daily flights to New York's JFK airport from London Stansted, Blue Fox is trying to bring a low-cost, low-fare business service to transatlantic travel.

It claims to offer a business-class service for $1,800 return, compared with up to $6,500 on mainstream carriers. “There are no restrictions. This is not a special offer. This is our everyday fare,” says Michael Lord-Castle, Blue Fox's president. His chairman is a real lord, Lord Tebbit, a former airline pilot who served as a minister under Margaret Thatcher.

Blue Fox will operate wide-bodied Boeing 767s, capable of carrying up to 270 passengers in the conventional lay-out of business and economy classes. Blue Fox will carry only 163 passengers, all in business-class seats that fold flat. It hopes to get approval to start its service in March next year. It will begin with three aircraft, but plans to build up to seven as it opens services to other destinations such as Washington, Los Angeles and San Francisco. Other refinements include direct telephone links to the ground so passengers can keep in touch with the office, and separate male and female toilets and showers.

Although Blue Fox is the first out of the gate with this sort of dedicated business service, other airlines are working on the same idea. United, for instance, hopes to launch an all-business carrier for domestic American flights—provided it does not go bust. The added attraction of such exclusive offerings is that they can operate with high levels of security without the delays now associated with ordinary air travel, because they tend to have their own terminals and security is totally under the airline's control.

Sceptics point out that Blue Fox's business model has flaws: fares on mainstream carriers may continue to fall, and their big corporate customers already get half-price discounts. Still, the fox deserves full marks for bravery—and, if it can fill its planes, for cunning too.

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Chinese television makers

Try cabbages next time

Oct 18th 2001 | BEIJING
From The Economist print edition

A once-promising business has been ravaged by price wars

AP

A surfeit of sets

"IT IS better to sell cabbages than colour televisions" is a common quip these days among Chinese television manufacturers. Five years of vicious price wars have all but eliminated profit margins and crippled the country's entire TV-making industry—the world's largest in numbers of sets built. Producers have found out the hard way that, in China's half-baked market economy, cutting prices to increase market share benefits only the consumer.

Normally, when price wars break out, weaker companies head for the exit. But not in China. Colour TV sets are now on average 80% cheaper than they were five years ago, but no manufacturer is winning. In the first half of this year, two of the industry's giants, Sichuan Changhong Electric and Konka Group, reported their first losses for decades: Changhong's amounted to $7m (excluding extraordinary income), Konka's to more than $20m. Many of the 80 or so mostly smaller manufacturers are doing even worse. But rather than close down, they either stand idle or continue to make TVs that they cannot sell.

Attempts to end the price war have come to nought. In June last year, nine of the biggest TV manufacturers declared a truce and agreed on mutually acceptable prices. But the government quickly stepped in, declaring their action illegal, and hostilities resumed, with big companies declaring price cuts of 20-30%.

Some officials think a shake-up is the only answer. In August, the Ministry of Information Industry warned that the TV manufacturers face "total collapse" if they fail to merge or diversify. That may be an exaggeration. More likely to suffer are the finances of local governments, which prop up the manufacturers. Most TV factories are state-owned and so overmanned. Local officials would rather pump more money in than risk the politically destabilising consequences of closing them down and putting thousands of unemployed workers on the streets.

China's admission to the World Trade Organisation (WTO), which is likely to happen by the middle of next year, will not help the industry all that much. Chinese manufacturers dominate the domestic market for basic colour TVs and will continue to enjoy a strong price advantage when import tariffs are cut after WTO entry. But so hurt have they been by price wars that they are unable to invest in research and development. This means they will have difficulty competing with foreign brands in the small but fast-growing high end of the market.

The problem is not just that officials are unwilling to let weaker companies fold. It is also that Chinese manufacturers often have little understanding of market trends. The market-research business, which is in its infancy, is notoriously unreliable.

The result is a colossal discrepancy between supply and demand. Output last year was more than 40m sets. Only 20m sets are sold in China every year; exports account for another 10m. TV manufacturers had hoped that growing rural demand would help to mop up the rest. But for the past five years the rural economy has been in the doldrums, with the disposable incomes of peasants in many areas stagnating or even falling. Poor reception and an erratic and expensive electricity supply have not helped.

TV makers are not alone in suffering this phenomenon. Price wars have affected other goods such as air conditioners, refrigerators, DVD players and mobile phones. But few other markets are as competitive as that for colour TVs. The average urban Chinese household has 1.2 of them already. Little more than a decade ago only around half of all urban households had a colour set.

There is some hope for the industry, however. WTO membership should at least provide greater access to foreign markets. China's biggest TV makers are currently all but locked out of the European Union, because of a 45% tax imposed by the EU three years ago in response to alleged dumping. China expects this tariff to be lifted after WTO entry.

But China still has much to do to establish brand recognition and respect in the West. Most of its exports are cheap models destined for other developing countries—and these markets will come to depend less on Chinese imports as they boost their own television-making industries.

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Employing gangsters

God meets Mammon

Oct 18th 2001 | MILWAUKEE
From The Economist print edition

The profit of turning thugs into programmers

A brother who could spare a dime

MILWAUKEE'S South Side is not a promising place to start a business. The city has a 60% high-school dropout rate and proportionally twice as many murders as New York. After he had buried his 28th gang member, Brother James Holub, a Jesuit, looked for a way to stop the killings. Arguing that “nothing stops a bullet like a job”, he decided to turn youngsters from local street gangs into programmers.

He had an asset: a previous successful business career. He began life as a commercial-property developer, and earned well over $10m before giving it away at the age of 29 to take vows of poverty, chastity and obedience. Rather than seeking ordination, as most Jesuits do, he began to work with gangs. Five years ago, he created Homeboyz Interactive, a non-profit outfit that undertakes recruiting, training and job placement. This is subsidised by HBI Consulting, a for-profit web-design firm.

Today, Brother Holub recruits youngsters from the back alleys of Milwaukee's roughest areas. Since 90% of the candidates he finds are drug addicts, the first step is a drug-treatment programme. After that, prospective students must get a full-time job on their own and spend six months studying for their high-school graduation exam. Of the 80 youngsters a year who get past this point, about 25 elect to become programmers. The rest are helped into community colleges and job-placement schemes.

Would-be programmers enter Homeboyz Interactive for a period of technical training, costing about $7,000 per student. They then move across to HBI Consulting to gain work experience. From there, they graduate to employment, sometimes with a corporate giant. Of HBI's 72 clients, 25 are in the Fortune 500. Companies such as GE Medical, Toyota Forklift, Northwestern Mutual Life, Verizon Wireless and BP have all used HBI to develop their websites.

The results are impressive. Of the 150 or so graduates from Brother Holub's programme, not one has been sacked. Instead, HBI graduates earn an average of $40,000 a year, and more than $63,000 after two years. But the best testimony to this experiment is that, after earning their stripes in the business world, many want to return to work full-time for HBI. Those who are accepted are paid the market rate, ranging from $40,000 to $50,000 a year.

Seamlessly, Brother Holub combines God and Mammon. One moment, he declares that prayer is the glue that holds together his “community” of web designers. The next he argues that, if something can't be measured, it can't be managed. In a language understood by corporate bosses around the world, he refers to good things, even prayer, as “value adds”.

Indeed, he does not want merely to get gang members off the streets. He wants to make a profit—and the consulting business expects to earn $1m this year, on revenues of $2.3m. He knows that profits allow expansion; and he is opening offices in Chicago and Los Angeles. But expansions are often risky in young businesses, and riskier still for a web-design firm in the middle of a technology bust. Whatever his profit margins today, Brother Holub will still need plenty of prayers.

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Gambling in Asia

Less sleaze, please

Oct 18th 2001 | MACAU
From The Economist print edition

AP

The race is on to build a Las Vegas for Asia's gambling classes

AT THE Lisboa, one of Macau's ten casinos and the largest in Asia, the croupiers are rude, the carpets are stained and the air is putrid with smoke. Grimacing cadres from mainland China and truck drivers from Hong Kong crowd around the tables. In the hallways and lavatories, mainland girls sidle up to gamblers, asking “go upstairs?” in Mandarin or Sichuanese; for connoisseurs, the Fuji sauna in the basement offers a menu of South-East Asian beauties. Gangland shootings have tailed off since Macau reverted from Portuguese to Chinese control in 1999, but it is still not the destination for “family and cultural tourism” that it would like to be.

The post-handover government, however, is determined to take the sleaze out of Macau—or at least, as one civil servant puts it, “to hide it better”. How? By ending the four-decade-old monopoly on gambling enjoyed by a leading Hong Kong tycoon, Stanley Ho, granting three new licences by the end of this year and perhaps more in the future. One of these licences is expected to go to Mr Ho. This month, ten American and Australian casino operators formally expressed their interest as well. All will tender official proposals on October 29th. The government hopes that this competition will raise the quality of service in its gaming halls.

Liberalisation in Macau, where over half of all Asian gambling is thought to take place, is spurring the rest of the continent into action. In Taiwan, whose citizens spend oodles in Macau, parliament this week approved plans to legalise casinos on Penghu, an outlying island. The Philippines, which currently allows private-sector gambling only in two special zones that used to be American military bases, is planning to privatise its state monopoly in the rest of the country, and to build a stretch of new casinos on reclaimed land along Manila Bay. Cambodia, North Korea and Vietnam have recently opened their first casinos. Japan, too, has plans to legalise them.

The main reason for this casino frenzy is China, whose economic rise seems to proceed heedless of any global downturn. Sean Monaghan, an analyst at ABN Amro in Australia, reckons that the growing ranks of China's new rich will swell the Asian casino market from about $8 billion now to $23 billion within a decade. He reckons that around a quarter of this betting will take place in illegal venues (China still officially bans gambling, as a capitalist vice), another 16% or so on cruise ships, and the rest mostly within three flying hours of the patrons' homes.

These projections matter not only quantitatively but also qualitatively, because the Chinese gamble differently from Arab oil sheikhs, Russian oligarchs or American pensioners. “In Las Vegas, people gamble as a diversion,” says Manuel Neves, director of the Macau government's gaming department. “In Macau, they gamble to fight; it's Chinese.” Macau, for instance, has more revenue per table than anywhere else in the world. Its clientele consists in large part of hard-core players on junkets, plus day-trippers from Hong Kong. Theme parks and heel-kicking shows of the Las Vegas variety are unlikely to

interest them, and the notion that they should bring their families raises chuckles.

Still, for western casino operators, the attractions of this emerging Chinese market are plain. It will grow even as western markets mature, and it will be profitable. Mr Ho's gaming company is privately held and discloses no numbers, but Ambrose So, a director, says that it rakes in revenues of almost $2 billion a year, and enjoys profit margins of 10%. Competition will hurt, says Mr So, but margins are unlikely to fall below 7%. The better-managed western operators could achieve returns on assets near 40%, reckons Mr Monaghan.

The region's governments are equally excited. Gaming taxes account for some 60% of Macau's government revenues, and a large chunk of the Philippines'. As part of its liberalisation, Macau is raising its levy from 31.8% to 35% of the casinos' gross revenues (chips bought less chips cashed out). Other governments, such as Taiwan's, do not want to miss out.

This is why they have changed their attitude to gambling. Traditionally, says Jan McMillen, a gaming-industry expert at the University of Western Australia, Asia has either prohibited betting, or doled out exclusive privileges to well-connected crony capitalists. Faced with the current boom, however, governments are studying industry models elsewhere in the world. Overwhelmingly, they are opting for the Las Vegas paradigm of raw commercialism, rather than the tamer, more regulated casino culture of, say, Australia.

As in Las Vegas, Asia's governments insist that casinos are part of a wider tourism strategy—one that includes clean fun. Mr Ho is helping to build a toy volcano with live eruptions next to Macau's ferry terminal (which he also owns). The idea is that gamblers bring their kids and stay the night in one of his hotels. Ms McMillen is less sanguine. Her research shows that “the idea that casinos stimulate tourism is a myth”. Instead, she thinks, governments would do better to heed western studies into the social costs of gambling. In Asia, however, this is a non-starter. “We're not even at the level of discussing social costs yet,” says Kelvin Tan, an industry consultant. Indeed, clients at the Lisboa seem to regard them as benefits.

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Face value

No more Mr Nice Guy

Oct 18th 2001
From The Economist print edition

Can Eric Nicoli reinvent himself as a mean music-industry mogul?

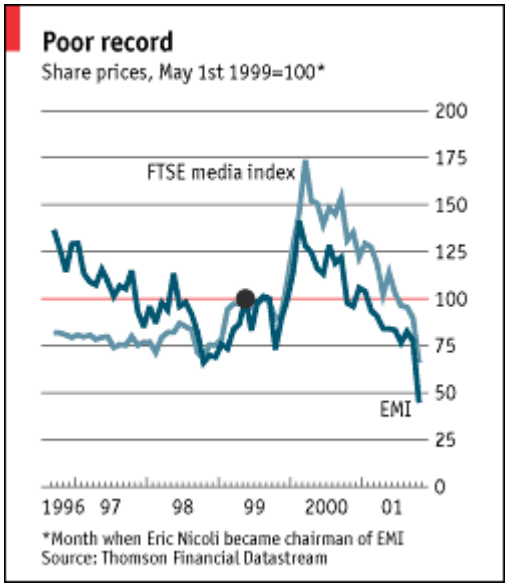
NICE, jovial, charming: the first characteristic that springs to mind when people talk of Eric Nicoli, the executive chairman of EMI, the world's only stand-alone record "major", tends to be his amiability. But nice businessmen do not always make good businessmen—which may be why Mr Nicoli seems so keen now to show that he too can be a tough guy. On October 15th, shortly after EMI's shares had plunged to a 13-year low, he fired Ken Berry, head of EMI Recorded Music, which accounts for the vast bulk of the group's revenues. In his place, he installed Alain Levy, a French music-industry veteran who turned round PolyGram, now part of Vivendi Universal. "Ken is a friend and a very likeable man," Mr Nicoli says, adding, with a studied mix of solemnity and triumph: "But I did what I had to do."

The sense that Mr Nicoli, who arrived at EMI in 1999 after eight years as head of United Biscuits, a food business, had got to do something has been mounting for some time. In an industry with stagnant sales since 1996, the five big companies that among them sell three-quarters of the world's recorded music have been scrambling for ways to improve deteriorating profit margins.

Last year, Mr Nicoli tried to merge EMI with Warner Music, now part of AOL Time Warner, an American media giant. But the European Commission said no. This year, he tried to merge instead with Bertelsmann's BMG, another of the big five. But the two sides called it off after the commission hinted that this deal would not escape regulatory review either. Although Mr Nicoli cannot be blamed for the regulators' stance, why, ask exasperated shareholders, did he waste so much time trying to put together a second deal when the regulators had already said no once?

As if these mishaps were not bad enough, Mr Nicoli issued a warning last month that pre-tax profits for the year to March 2002 would be 20% lower than the £259.5m ($384m) of the previous year. In the first half, he added, EMI Recorded Music would actually show an operating loss. This is what prompted the collapse of the share price, though it has recovered somewhat. Since Mr Nicoli took over, EMI's share price has lagged the FTSE media index (see chart).

To be fair, not all of EMI's troubles can be blamed on its managers. The industry is in a hole. Worldwide sales fell by 5% in the first half of 2001, with sales of CD albums recording their first ever drop. Digital piracy, through both illegally recorded CDs and the online swapping of music files, has flourished. And although music is not dependent on advertising, EMI has suffered from general disillusion with media shares in the downturn.



While my guitar gently weeps

Yet this is not quite enough to exonerate the genial Mr Nicoli, the son of Italian immigrants, who graduated with a first-class degree in physics and who plays the electric guitar (but only in private). EMI's great weakness is North America. Although the region accounts for 41% of world music sales, EMI sells only 33% of its recordings there. With a worldwide market share of 14%, EMI is the world's third-biggest music group, and has achieved recent sales growth in Britain; yet, in the United States, it languishes in fifth place. Its catalogue of old-timers, such as The Beatles, does well in America. But EMI has had a tough time trying to sell British stars like Robbie Williams. Its record of spotting and promoting new American talent has been dismal.

“Our failure to perform in the US has gone on for decades,” concedes Mr Nicoli, adding, presumably for reassurance: “It's not pathetic weakness, it's just relative weakness.” In Mr Levy and David Munns, a former colleague at PolyGram who is also moving to EMI, Mr Nicoli argues that he has the team he needs to sort out the talent-spotting problem in America. In an industry where the vast majority of artists never make a penny for their record labels, the pair badly need to put good talent scouts in place.

Yet once artists are signed, it gets only more perilous. Mariah Carey, whom EMI signed early this year for an undisclosed but “unprecedented” amount, checked herself into a clinic this summer complaining of “extreme exhaustion”; the release of her new album had to be postponed. It is all far removed from Mr Nicoli's former world of digestive biscuits and potato crisps.

The trouble is that EMI is beginning to sound like a stuck record when it comes to sorting out America. Three years ago, Mr Berry was hired by Mr Nicoli's predecessor, Sir Colin Southgate, with precisely that brief. Now it is Mr Levy's turn. Yet nurturing new artists takes time, and that is something Mr Nicoli cannot spare. The industry has still not launched its new online music-subscription services, MusicNet and pressplay, which are designed to lure consumers away from illegal file-swapping sites, and to try to generate some income from online music. Now there are growing noises, on both sides of the Atlantic, about antitrust concerns.

In this respect, EMI's independence is an advantage. With no distribution interests, the company is the only music major to have licensed its content both to MusicNet, backed by EMI, AOL Time Warner and Bertelsmann, and to pressplay, backed by Sony Music and Vivendi's Universal Music. Yet, without the dedicated distribution outlets and promotional clout of a media conglomerate behind it, EMI is left, as Mr Nicoli puts it, at a “bit of a disadvantage”.

Right now, though, potential buyers, such as Viacom or Disney, are hardly looking acquisitive. This may explain why Mr Nicoli's best option for buying time is to act hard, sound hard and try to behave like the sort of ruthless music mogul he so evidently is not.

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The recession

How far down?

Oct 18th 2001
From The Economist print edition

Most economists reckon that America's recession will be brief and mild. They are likely to be proved wrong

THERE you have it: economists now agree on something. Practically all of them now say that the American economy is in recession. Where they do not agree is over how deep and how long the recession will be, and how robust the recovery.

Economic data published since September 11th have, not surprisingly, been bleak. America's industrial production fell in September by 1%. That was its 12th consecutive month of decline, the longest unbroken fall since 1945. The 5.8% output loss of the past 12 months is already greater than in the recession of 1990-91.

Retail sales also plunged in September, by 2.4%, as consumers stayed away from shopping malls. And, although the University of Michigan's survey of consumer confidence rose slightly in October, the anthrax terror will surely now bruise sentiment. As Alan Greenspan, chairman of the Federal Reserve, said in his congressional testimony this week, greater uncertainty for businesses and consumers hits economic activity, at least in the short term.

Most economists now predict that American GDP will show a total decline of about 1% through the third and fourth quarters of the year. They say it will be broadly flat in the first quarter of 2002, then start to recover, with relatively strong growth—say, 3-4%—by the second half of next year. If so, this would be one of the shortest and mildest recessions on record.

There are three reasons for expecting a mild recession. First, it is argued that firms have already made strides to cut back unwanted inventories and excess capacity. Second, unlike during the previous three recessions, oil prices have fallen. Third, the American economy benefits from a great loosening of monetary and fiscal policy. Interest rates have been cut to their lowest levels since the early 1960s. Meanwhile, the total fiscal stimulus in 2002 (including tax cuts already enacted, emergency relief and extra tax cuts, plus spending increases now being considered by Congress) could amount to 1.5% of GDP—the biggest fiscal boost in one year since 1975.

The hope that America's recession will be mild appears to have helped share prices to recover worldwide. Many stockmarkets have almost regained their levels on September 10th. But what if America's recession turns out to be deeper than the majority of economists currently expect?

Start with the argument that capital spending has already been slashed, and that future cuts will therefore be modest. The problem is that overcapacity remains great. In September, industry's capacity utilisation fell to 75.5%, its lowest since 1983. Firms are also unusually dependent upon outside finance. The corporate-financing gap (capital spending minus internal cashflow) is at a historically high 2.5% of GDP. As profits continue to slide, and lenders become more reluctant to extend credit, firms may have to cut investment plans further. In virtually every recession since 1950, financing gaps have been plugged, as firms were forced to finance investment from internal funds. Should this happen again, says Jan Hatzius at Goldman Sachs, capital spending could fall by another 30%, or 2.5% of GDP.

Profits have already taken a beating. According to Dresdner Kleinwort Wasserstein, the reported profits

of companies in the S&P 500 index fell by 60% in the year to the second quarter. Even taking a four-quarter moving average, they fell by 30%, the biggest decline since the 1930s. As a result, profits in the non-financial corporate sector fell to 8.1% of GDP in the second quarter, down from 12.5% in 1997. Because profits have slumped further since then, margins are now at their lowest at any time in the past half-century.

The biggest reason for thinking that consensus forecasts for the American economy are too complacent is that the root cause of this recession is not terrorism, but rather the economic and financial imbalances that built up during the late 1990s. Firms overinvested and overborrowed on the back of inflated expectations about future profits. Households borrowed heavily too, believing that share prices would rise forever. These excesses will take time to unwind. Despite this, many economists argue that the events of September 11th have made a V-shaped recession and recovery more likely: a swift *schuss* down one slope, sufficient to propel the economy up the next. But that ignores how steep and icy the piste in America is today.

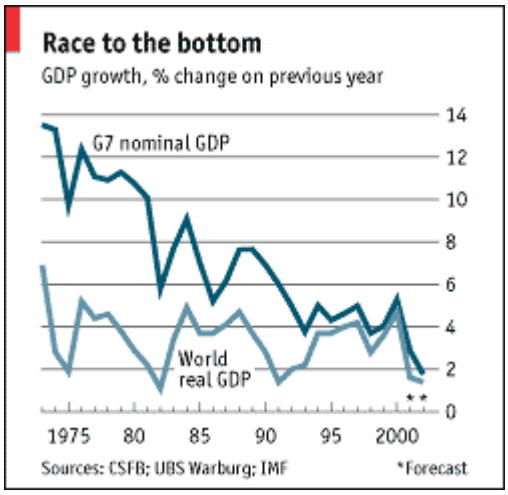
It is true that monetary and fiscal policies are more expansionary than they were in previous downturns, but the economic imbalances are also bigger. To the extent that these caused the recession, tax and interest-rate cuts may be less effective than in the past. When households are financially overstretched, tax cuts tend to be saved rather than spent. And when debts of firms and households are at record levels relative to income, lower interest rates are less likely to spur new borrowing.

Another reason for thinking that America's recession may turn out deeper than expected is that the world economy is in an unusually synchronised downturn. Japan has slipped into its fourth recession in a decade, and economists at one investment bank, CSFB, predict that its economy will shrink for five consecutive quarters. Output in the euro area has stagnated since the spring and may well decline in the fourth quarter.

The Economist's latest poll of forecasters has dramatically reduced its growth predictions for emerging economies (see article). Much of East Asia is in recession, as exports to America, especially of high-technology goods, have plunged. Taiwan's exports fell by 43% in the year to September. Official estimates suggest that Singapore's GDP fell at an annual rate of 10% in the third quarter, after a similar pace of decline during the first half of the year. Even China's growth has slowed. The government has admitted that growth slowed to 7% in the year to the third quarter, down from over 8% last year.

Even with a mild recession in America, then, this could still turn out to be the most severe world recession since the 1930s. (Such a recession is commonly defined as annual growth of less than 2%.) CSFB predicts that global growth will average 1.5% in 2001 and 2002, its slowest two-year period during the past 50 years. This increases the risks for America, because shrinking trade can amplify a recession. Last year the volume of world trade grew by 13%; this year growth may fall to zero.

Estimates of the global output gap (the extent to which output is below its potential) suggest that it has increased to its widest since the 1930s. High excess capacity around the world looks likely to push inflation down faster than in past world recessions. *The Economist* all-items commodity price index has fallen to its lowest for 15 years, and average inflation in the G7 economies could drop to only 1% next year. Low inflation plus sluggish growth implies that nominal GDP growth in the G7 economies could fall to barely 1% by early next year (see chart).



When nominal GDP growth falls so low, warning lights should flash. Central banks have less scope to use monetary policy to boost demand, profits grow more slowly than expected by stockmarket investors, borrowers find it harder to repay debts, and strains often emerge within the financial system. Low or, worse still, negative growth in nominal GDP can mean deflation, hugely aggravating debt burdens. Just ask Japan about its experience in recent years.

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America's productivity growth

Still don't get IT?

Oct 18th 2001
From The Economist print edition

Investing in IT does not automatically boost productivity growth

WHEN America's recession ends, what sort of growth will the economy enjoy over the next five years? The answer depends mainly on productivity growth. This spurted to an annual average of 2.5% in 1995-2000, up from 1.4% in 1972-95. How much of that increase is sustainable is hotly debated.

It depends partly on the cause of the surge in the late 1990s. Alan Greenspan, the Federal Reserve's chairman, has long argued that productivity was boosted by investment in information technology (IT). However, a new report by the McKinsey Global Institute concludes that IT was but one factor. Increased competition, better management and the impact of the economic cycle were, it argues, together more important in lifting productivity growth.

Most previous studies have used aggregate economic data. The main contribution of this one is its detailed analysis of firms in various industries. McKinsey finds that 99% of the increase in productivity growth was in just six sectors: retail, wholesale, telecoms, financial securities, semiconductors and computers. In many businesses (banking, hotels) large increases in IT investment failed to lift productivity growth.

It would be wrong to conclude that IT investment was a waste, even so. Indeed, virtually all the sectors that enjoyed faster productivity growth also saw bigger IT investment. A better explanation is that IT is a necessary but not a sufficient condition to lift productivity. To reap the benefits, firms also need to reorganise the way they do business.

The report reckons that some of the recent increase in productivity growth is unsustainable. For example, much of the jump in productivity in financial securities was due to the bubble, which increased both online trading and the value of assets under management. Taking the mid-point of McKinsey's range, productivity will grow by 2% a year over the next five years—slower than in the late 1990s, but still well above its rate in the previous 20 years.

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Celestial investing

What a little moonlight can do

Oct 18th 2001
From The Economist print edition

How the sun and the moon move markets

WHEN ace traders call themselves “Masters of the Universe”, they speak truer than they know. There is a growing, heavenly body of evidence that share prices are influenced by forces from outer space—well, the sun and the moon, anyway. Master these inter-planetary forces, and you master the markets.

Seven souls have boldly gone where no economists have gone before, producing no fewer than three new papers quantifying extra-terrestrial influences at work in world stockmarkets. David Hirshleifer, of Ohio State University, and Tyler Shumway, of the University of Michigan, have taken a long look at the sun. Across 26 stockmarkets, in 1982-97, they found that, on days with more sunshine in the morning than usual, shares generated above-average gains, and lower gains on unusually cloudy days. After taking sunshine into account, other weather conditions such as snow or rain turned out to have no impact on share returns.

The effect of the sun seems to have been quite big. For shares traded in New York, for instance, annualised returns on perfectly sunny days averaged 24.8%, compared with 8.7% on perfectly cloudy days. Moreover, unlike some stockmarket “anomalies” discovered by economists, investing by the sun would have been more profitable than simply investing in the market index, even after subtracting trading costs. Alas, this does not guarantee profitable trading in the future. Even assuming the effect really exists, investors, now they have been alerted to it, will probably arbitrage away any excess returns to be had by exploiting it.

The other two papers, both published by the University of Michigan, look a little closer to home, at the moon. Kathy Yuan, Lu Zheng and Qiaoqiao Zhu examined share returns in 48 countries until the end of July 2001, from start dates as far back as 1965. They found that, on average, daily returns were much higher around new moons than full moons, when investors are presumably sprouting fangs and howling rather than buying shares. Returns were 8.3% lower in weeks with a full moon than ones with a new moon. The lunar effect held in 43 of the 48 countries, and investing by it would have been profitable even after trading costs.

Ilia Dichev and Troy Janes reach a similar conclusion from a study of 100 years of American share prices, and at least 15 years' data in each of 24 other countries. Daily returns around new moons were roughly double those around full moons. The lunar effect is strongest outside America. All seven economists insist that their results are not the product of data-mining—crunching the numbers in search of any interesting pattern they can find. Rather, the results are the latest manifestation of behavioural finance, which seeks to show how psychological patterns explain apparent market inefficiencies.

Still, although it is widely believed that the phases of the moon affect behaviour, psychologists have yet convincingly to prove it. The behavioural economists reckon this may be because psychologists have focused on trying to link the moon to extreme behavioural problems in a few disturbed people, rather than to more humdrum lunacies affecting humanity as a whole, including a bias against shares around full moons.

There is, on the other hand, stronger scientific evidence that sunshine puts people in a better mood, as well as making them more credulous. You will find that, even as you reach for your diary for the next new moon, the sun is surely shining.

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Insurance shares

Looking up

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From The Economist print edition

Surprising beneficiaries of terrorism

AFTER a calamity, investors in insurance panic. It happened after Hurricane Andrew struck Florida in 1992, after the Northridge earthquake wreaked havoc in Los Angeles in 1994 and again after the attacks of September 11th, when investors dumped shares in insurance companies around the world. Then, all of a sudden, the investment mood changed. The sector has recovered to levels higher than immediately before the attacks (see chart).

Investors sold until they had a clearer idea of how hard insurers were going to be hit, and how well-cushioned they were to take the blow. The overall costs for insurers are now put at $35 billion-41 billion, according to estimates by Morgan Stanley. Those hardest hit by the costs of claims are likely to include Berkshire Hathaway, Munich Re, Swiss Re, Allianz, Zurich Financial Services and AIG. They can pay their claims, they say, and the share prices of almost all of them have recovered.

As the weakest firms had already been weeded out in recent months, the industry is likely to get away without a large insurance firm going under. Reliance, an American insurer, several Australian insurance firms and Independent Insurance in Britain all went bust before the attacks, which helped to consolidate the industry somewhat. The survivors are generally well-capitalised, though the balance sheets of some reinsurers do not inspire confidence. The shares of one such reinsurer, France's Scor, have lost 10% since the attacks.

Insurance is a rare business that can boast both good growth prospects and strong pricing power. As the world becomes riskier, or at least apparently so, demand for insurance will rise. Premiums are being raised, in particular for reinsurance. The trend could continue for some time. Regulators have become tougher, and barriers to entry in the industry have got higher. That all means that the usual scourge of excess capital, which serves to drive down premiums, may take longer to arrive in this particular cycle.

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Bankruptcy on the rise in America

Belly up

Oct 18th 2001 | NEW YORK
From The Economist print edition

This will be a record year for big bankruptcies

THE vultures are circling corporate America. The carcasses are bigger than ever, though the carrion may find the pickings unappetising. This month, household names such as Polaroid, Regal Cinemas, Federal Mogul and Bethlehem Steel have gone belly up. Others will follow.

So far in 2001 there have been 32 bankruptcies of companies with liabilities of over $1 billion. This is more than the whole period of 1989-91, the low point of the previous business cycle, calculates Edward Altman of New York University's Stern School, which compiles a well-watched list of corporate debt defaults.

Even ignoring the biggest bankruptcy of all—that of Pacific Gas & Electric with $26 billion in liabilities, which was killed mainly by the politics of California's energy crisis—the numbers are hefty. About 7% of outstanding issues of junk bonds are in default. The all-time peak of 10.3%, which was set in 1991, may soon be topped. Defaults were pretty stable between 1993 and 1998, at below 2% of outstanding issues. In the first nine months of this year, on the other hand, firms with liabilities totalling $170 billion declared bankruptcy. The previous record was $93 billion in 2000.

There are other differences between this bad-debt crisis and previous ones in the late 1970s, late 1980s and early 1990s, says Barry Ridings, managing director of the restructuring business of Lazard Frères, an investment bank. The problems are more widespread, not confined to particular firms that took on too much debt. Entire industries are in trouble, including movie theatres, nursing homes, steel and anything that ever came into contact with asbestos.

Worse still, says Mr Ridings, once a company defaults, it is harder to fix it again, despite the protection from creditors that is provided by chapter 11 of America's bankruptcy law. Interest rates are low, yet banks are tightening their lending standards. Raising money through a junk-bond underwriting is all but impossible—no matter the yield offered—for any but the least suspect names.

Growing uncertainty about how to value a firm in today's fast-changing economy is making it hard to agree asset sales, or to decide what sort of new capital structure is appropriate. Cinemas, say, were once considered low-risk businesses that could handle a lot of debt, so they geared up. Hundreds of new theatres were built with this borrowed money, just as Hollywood seemed to lose the ability to produce films that everybody wanted to see. The downturn came too fast for the cinema chains to adjust their capital structure, so they failed.

In the past, firms that went bankrupt were often given years to try to work out their problems before liquidation was seriously considered. This year's model is Midway Airlines, a troubled carrier which, following the attacks on September 11th, declared bankruptcy and closed for good on the same day.

Many of the firms going bust now were still in their “development” phase. They would always have needed more capital to be invested before having any chance of turning a profit, says Dominic DiNapoli, head of the business-recovery division of PricewaterhouseCoopers. They could not become profitable simply by cancelling some of their existing debt, as was common in the past for firms whose main problem was too much leverage. These days, if there is no prospect that restructuring will provide a tidy sum, the firm is closed.

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Asset management

In the dock

Oct 18th 2001
From The Economist print edition

British fund managers are under new pressure to perform

AS STOCKMARKETS everywhere have slumped, and "active" fund managers have performed, on average, even worse than the indices, investors have turned nasty. In a court case that began in London on October 15th, pension-fund trustees for Unilever, an Anglo-Dutch conglomerate, are suing Merrill Lynch Investment Managers (MLIM) for negligence. They seek £130m ($190m) in damages for the alleged mismanagement of their £1 billion pension fund.

Not even trustees in America have taken this step. When fund managers perform poorly, they are fired, not sued. Yet Unilever says the extent of the underperformance at Mercury Asset Management (as the firm was before its takeover by Merrill Lynch in 1997) amounts to negligence. Between January 1997 and March 1998, Mercury underperformed the benchmark for British equities by over ten percentage points. The contractually agreed performance target was to beat the benchmark by one percentage point. A performance floor of three percentage points below the benchmark was set for any four consecutive quarters. You might wonder what on earth led a fund manager to commit to such promises. Merrill, in its defence, says that neither performance target nor floor was guaranteed, and they could not mean that the fund would never perform outside the range in a given period.

The legal argument of the trial will focus on whether Mercury took excessive risks when managing Unilever's pension-fund assets. Unilever claims that Alistair Lennard, who managed its portfolio, neither diversified sufficiently, nor was stopped by his superiors when investment decisions diverged greatly from Mercury's house policy.

For instance, he went for industrial shares when technology, media and telecommunications were all the rage—a mark of wisdom, it might be natural to think, but not when you are judged against a relentlessly rising benchmark. When Mr Lennard was replaced in May 1997, the fund continued to perform badly. Merrill denies that the portfolio was improperly balanced, pointing out that it remained within risk parameters set by the Barra model, a common risk-management tool for fund managers. Looking uncomfortably at its shoes, Merrill says that with hindsight anybody can pick the right stocks.

Whatever the judgment in the Unilever case, which is supposed be handed down in a couple of months, British firms that are active managers of money are in the figurative dock. Their assets under management have shrunk, and not just because of lower markets, says Huw van Steenis at J.P. Morgan. Investors are pulling out in droves in favour of indexed funds or even such "alternative" investments as hedge funds. Britain's 20 biggest fund-management firms have lost 14% of institutional assets under management in the past year, according to a recent survey in *Pensions Week*, a trade magazine. MLIM itself lost £9.3 billion in British pension-fund money over the year, knocking it from the top spot. Meanwhile, costs have climbed—by 10% over the past year, according to PricewaterhouseCoopers—as new systems are installed and staff hired.

The head of one fund-management firm, Paul Myners of Gartmore, predicts that the fear of losing even more business, or of being sued, will force more "active" fund managers to mirror indices or to invest, with little imagination, only in the very biggest companies. Without the unconventional or contrarian bets that account for outperformance, there will soon be little to distinguish active managers from the index-trackers.

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Japan's Financial Services Agency

Head in sand

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From The Economist print edition

Whatever happened to the FSA's reformist stance?

JAPAN'S Financial Services Agency (FSA), which only two years ago was considered a beacon of reform, no longer shines. The country's banks are a mess, with many bad debts. Yet the folk at the FSA seem intent on hiding the mess rather than doing anything about it. Of the group of reformers that led the agency when it was created in 1998, all but one have been booted out. Most of the new leaders insist, despite overwhelming evidence to the contrary, that the banks, though admittedly knocked about a bit, are perfectly sound. The rank-and-file in the agency are getting increasingly frustrated. Hakuo Yanagisawa, the minister who oversees the agency, typifies the change. Once a vocal reformer, his new defensive attitude puzzles, indeed infuriates.

Meanwhile, the new FSA gets pricklier. ING Barings, a Dutch bank, was recently slapped with a “business improvement order”, after its bank analyst published a negative report on Daiwa Bank that contained a couple of small, numerical errors. Other bank analysts are also being closely scrutinised in routine audits of their firms. Worse, there is talk that the FSA may have pressured Dai-Ichi Kangyo Bank (DKB), one of the trio that makes up Mizuho Holdings, the country's biggest banking group, to extend a ¥50 billion ($410m) credit line to Mycal only a month before the supermarket chain collapsed.

The FSA, it appears, wanted to keep Mycal alive because it had let banks put the retailer in the safest category of problem loans, requiring banks to reserve against less than 5% of their loans. Mycal's collapse (banks ended up having to write off 100% of their loans to the company) accomplished what the FSA most wanted to avoid: it raised new suspicions that many similar loans have been bundled into this category. DKB may now face a lawsuit from shareholders. Both the FSA and DKB deny this interpretation of events.

Still, some financiers and officials point the finger at Shoji Mori, the top bureaucrat at the FSA, for its recent, anti-reformist stance. After being sidelined from influence for a while, Mr Mori, with help from powerful chums at the Ministry of Finance, was in December 1998 appointed secretary-general of the Financial Reconstruction Commission, a bank-reform body that was later folded into the FSA. In 1999, he supervised a ¥7.4 trillion injection of public funds into big, “healthy” banks, meant to make them even stronger.

Now Mr Mori, who controls personnel decisions at the FSA, seems to want merely to keep up appearances for the rest of his watch, which is expected to end next July. There are even suggestions, which the FSA denies, that some information, including inspection results, has not been passed to Mr Yanagisawa as quickly as it might have been. This would help to explain Mr Yanagisawa's stubborn refusals to admit to big trouble at the banks. Others hint that he is too alarmed about creating fresh turmoil if he does.

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Russian bank reform

Don't bank on it

Oct 18th 2001 | MOSCOW
From The Economist print edition

Russia's latest banking reforms don't go deep enough

AP

Gerashchenko's guarantee

JUDGED by the number of laws passed, it all looks rather promising. Reforms so far this year, on banking supervision, accountability and money laundering, mean that Russia's 1,300-odd banks have never had a tougher, clearer set of rules to work by. Impending changes will aim to attract more foreign banks, set up proper licensing requirements and increase depositors' protection.

So far, so good. But as with all Russian economic reforms, what the law says is one thing; how it is applied by bureaucrats, notably in the provinces, is another. Russia still lacks a corps of financial administrators who could properly handle a single insolvent bank, let alone a bunch of them.

A second, huge problem is that the reforms leave untouched the biggest distorting influence in the whole system: the central bank. This imposes a regulatory burden verging on the preposterous. Practically every transaction must be recorded on paper (not electronically). Silly rules mean that even respectable banks have to park their assets offshore. The cost of all this is one reason why foreign banks are so reluctant to increase their activities in Russia.

These rules are also unfairly applied. Banks with good political connections obtain lucrative favours and exemptions. Outsiders risk penalties for missing a comma. The self-satisfied atmosphere at the central bank hardly corresponds to the puny system it runs.

The central bank is a big operator in the industry it itself supervises, particularly through Sberbank, the biggest in the country, in which it has a 61% stake. Scalded by past crookedness, Russian savers do not trust banks much. When they do, Sberbank's de facto deposit guarantee makes it the obvious choice. That pool of cash gives it a huge competitive edge. Private-sector rivals complain that it lends at negative interest rates.

So far the central bank, ensconced in luxurious buildings in Moscow and in regional outposts across Russia, has beaten off attempts at reform. The governor, Viktor Gerashchenko, a veteran of the Soviet banking system, has kept politicians sweet by deftly using his bank's patronage. “The biggest reform Russia needs is at the central bank,'' says Boris Fedorov, an independent director of Sberbank and former finance minister. Yet even with the right reforms, and the right central-bank boss, it is an open question whether a healthy banking system can develop in such murky waters. Kim Iskyan, author of a new study on the Russian banking system, believes that, as things stand, another banking crisis—with all that will do to confidence—is only a matter of time.

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Economics focus

Thinking the unthinkable

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Would Britain be committing "economic suicide" if it left the European Union?

"BETTER Off Out?", a study of the costs and benefits of British membership of the European Union, was first published by the Institute of Economic Affairs five years ago. Its authors—Brian Hindley, a trade scholar and adviser to various international organisations, and Martin Howe, a Queen's Counsel specialising in European law and intellectual property—may have briefly regretted their decision to release an updated edition this month. After the terrorist attacks on America, interest in the finer points of Britain's economic relationship with the EU was not at its height. But then Tony Blair, astride white charger, galloped to the rescue at the Labour Party conference.

The prime minister chose that occasion to share his revelation that all these things are of a piece. The attacks on America affirmed the value of community, he noted. In Britain's case, "community" means, among other things, closer co-operation with Europe. Indeed, the war on terrorism apparently underlines the case for British membership of Europe's single currency.

That was a strange, as well as a logically adventurous, connection. It implies that Britain's future in Europe—at least in so far as a single currency is concerned—is as much about politics as economics, a point the government has usually been keen to deny. The centrality of politics is one thing, possibly the only thing, on which the government now agrees with Mr Hindley and Mr Howe. Their study finds that the balance of economic costs and benefits in British membership of the EU may be plus or minus, but is in either case pretty small. Whether Britain best belongs in the EU (and indeed the euro) is not mainly an economic question.

How can this be? Surely the economic costs of British withdrawal would be vast? Many Europhiles, after all, hold that Britain must put up with the political annoyances of EU membership in order to reap the enormous economic advantages. Even staunch sceptics usually pretend to recoil at the idea of actually leaving the the Union: "We never said that," they insist, to reassure listeners of their sanity. Yet the study's careful tallying of gains and losses shows that the economic balance, one way or the other, cannot be large, and would most likely be less than 1% of British GDP.

The main items on the balance sheet are as follows. First is the cost of Europe's absurd Common Agricultural Policy (CAP). Leaving the Union and shedding the CAP would allow Britain to save between 0.5% and 1% of GDP. Second is the loss of trade due to reimposition of the EU external tariff on British exports to Europe. This would be a cost, but of no more than 0.75% of GDP, and quite probably less. The figure is small because the EU's external tariff (the maximum allowed by the World Trade Organisation) is on average only around 6%, and because subsequent adjustments in trade patterns and currencies (Britain would still have an exchange rate to adjust) would dampen the effects.

Third, offsetting this second cost to some extent, and maybe completely, is a gain from removing the distortion due to the external EU tariff on British imports from outside the Union. And fourth is a possible reduction in foreign direct investment (FDI) leading to a possible loss in GDP. (Both those "possibles" need to be there, as will be clear in a moment.)

Small as the first three items may seem, they are mainly a matter of simple trade arithmetic. The authors' figures do not admit of much dispute, and have never in fact been seriously challenged. It is the fourth issue, the threat to FDI, that is the main worry for many people.

Foreign investors are bound to regard British membership of the EU as an advantage. But it cannot be all that Britain has going for it; otherwise Britain would attract no more FDI, in relation to its GDP, than do

other EU countries. And it does—the foreign-owned stock of capital is equivalent to about 25% of GDP. Its comparatively deregulated labour market has presumably helped.

If Britain were to leave the EU, its advantage as a home for FDI would be reduced, because exporters from Britain to the rest of Europe would face the external tariff and some added bureaucracy, but it would not be eliminated. This cost would also be less if Britain used its outsider status to improve its other advantages to investors by, for instance, increasing the distance between its own level of economic regulation and that which prevails elsewhere in Europe. Bearing this in mind, it is not even certain that FDI would fall at all.

As for the second “possible”, it cannot be taken for granted that, even if FDI did fall, this should count as a cost. The reason is that Britain's government, like most others, subsidises FDI. Unsubsidised FDI plainly pays economic dividends. But subsidised FDI is worthwhile only if it delivers so-called external benefits, such as stimulating further domestic investment or bringing with it new technology or better management. As the authors point out, the evidence for these external benefits is thin, at best. Any gains from subsidised FDI“may be entirely dissipated by the payments that the British government makes to attract investors or to persuade them to stay.”

It is worth noting, finally, that all these estimates are based on the worst-case scenario, in which Britain would face the full EU external tariff. In practice, that seems most unlikely: a free-trade arrangement (perhaps like Switzerland's) would surely be negotiated. This would drive the estimated costs of leaving (but not the estimated benefits) right down. And Britain outside the EU would also be able to make free-trade deals with other countries, or to liberalise its trade unilaterally—a great prize. The political case for membership may, as the government says, be strong. The economic case is a closer call than most believe—and the idea that leaving would be “economic suicide” is nonsense.

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Broadcasting technology

Picture perfect?

Oct 18th 2001
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Technological advances are liberating news reporting

DURING the American Civil War, journalists using the then newish technology of photography travelled with vast arrays of equipment—chemicals, cameras and glass plates—which had to be packed on to large, horse-drawn carts. Since then, many wars have been touched by improvements to the technology of reporting. In the first world war it was film; in the second, live radio; in Vietnam, television.

The star of the current conflict in Afghanistan is the video satellite phone. This allows live broadcasts to be beamed directly from a war-torn and technologically primitive country. Liberated from landlines and truckloads of satellite dishes—the modern equivalent of those horse-drawn carts—journalists can talk to the camera where they please, without being beholden to the authorities.

Some people see this as the beginning of a revolution in outside broadcasting. One such believer is Margaret Engel, managing editor of the Newseum, a “news museum” run by the Freedom Forum, a press-freedom foundation based in Arlington, Virginia. She reckons that video satellite phones, and successor technologies based on more traditional mobile-phone networks, may be as liberating a force in journalism as the Internet has been. If everybody can be their own reporter and camera crew, the power of the censor will fall away. Speculating further, she looks forward to a day when real-time language-translation software would abolish yet another barrier to getting the message across. On the other hand, the problem of whom to believe will become worse. Charlatans, hoaxers and people with a vested interest will all try to get their particular points of view across, all the while calling it news.

Talking about a revolution

At present, the video satellite phone of choice is called Talking Head. It weighs 5kg, is about the size of a thick laptop computer, and is put together by 7E, a company based in London. Essentially, it is a rugged video-conferencing unit attached to either one or two satellite-communications terminals. (Using two doubles the rate of data transfer.) The entire package, plus satellite phone, costs some $16,000.

The satellite network that the phone talks to is provided by Inmarsat—once an inter-governmental collaboration, but now a company, also based in London. This network is a set of geostationary communications satellites (ie, spacecraft that have an orbital period of 24 hours, and so hover over the same place). Four of these cover the whole world, apart from the poles. So far, Inmarsat has had a good war. Since the bombing of Afghanistan began, use of its Indian network has been running at ten times normal levels.

Peter Beardow, the managing director of 7E, says the firm has been working on Talking Head since 1999, with the active encouragement of both the BBC and CNN. The system filed its first report on April 27th last year, when General Pinochet was arrested. But it was not until CNN scooped the world's media with shots of the American spy-plane that landed in China in April this year that Talking Head gained worldwide attention. There are now more than 200 units in the world, with the BBC and CNN being particularly heavy users.

Over the next three years, such video satellite technology should improve fast. 7E reckons it will be able

to slim its units down to A4 size, and to a weight of 2kg, making them thinner than laptops. The data-transmission rate will also double (each channel now carries only 64 kilobits a second, which accounts for the jerky pictures that the system produces).

By 2004, a new generation of Inmarsat satellites will be operational, too. These will have 100 times as much broadcasting power as members of the existing fleet, and ten times as much data capacity for these sorts of services. This will mean higher-quality pictures. Besides having more powerful satellites to talk to, the receivers are also shrinking because Inmarsat is using “spot-beam” technology, in which satellites focus their power on small regions. These spot-beams can be moved rapidly from one place to another, making it possible to serve thousands of customers with only a few hundred beams.

Although video satellite phones will spread power within the existing system by enabling small news organisations to do what, until recently, only the big boys could afford, they will not, by themselves, make everybody into an outside broadcaster. That is because, for the foreseeable future, they are likely to remain too costly to be true consumer items. And that, in turn, is because satellites are expensive to build and launch. Getting one into a geostationary orbit will not leave you much change from $250m. As a result, using Talking Head costs $7 a minute for each channel to the satellite. The fate of Iridium, a consortium that built a satellite network for voice telephony, and then found that nobody wanted to use it, shows that direct-to-satellite communications are probably not a mass market.

Mass broadcasting may yet come, though, from the thing that killed Iridium: the ordinary mobile phone. The first third-generation (3G) mobile phones will have enough data capacity to transmit live pictures at rates similar to today's Inmarsat satellites, and those rates might eventually reach two megabits a second. And because 3G networks are designed for a mass market, the units will be cheap and numerous.

The prospect, therefore, is that within a few years the scene of any big news event in a country with a 3G mobile-phone network will bring dozens of live images from people holding up cameras built in to their phones and broadcasting the action. A government could still try to censor it by closing down its entire mobile-phone network, but that would be hugely costly. In the race between the technology of liberation and the technology of control, the liberators should end up winning a heat.

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About sponsorship

Biological weapons

Testing times

Oct 18th 2001
From The Economist print edition

Instant screening for anthrax is now possible

Get article background

THE difficulty of isolating, growing and distributing suitably lethal strains of anthrax means that serious biological attacks have, so far, been mercifully few and far between. This is, however, of little comfort to the large numbers of people opening letters or parcels containing a mysterious powdery substance that turns out to be something innocent, or a hoax.

Unfortunately, the two established methods for identifying anthrax and other microbial contaminants involve time-consuming laboratory techniques. One is to try to culture an organism from the powder, and then subject it to a barrage of chemical tests to identify it. The other is to amplify and identify its DNA. The first takes days, and the second is a sophisticated technique that few laboratories are yet able to manage. So, even if the result is negative, chaos may already have been caused and the act of terrorism rewarded.

A better solution would be to screen on the spot. And technology to do this is now available. It uses a test strip, costing $20, that looks like a pregnancy-detection kit.

The Guardian Bio-Threat Alert System is a joint development by Alexeter Technologies, based in Wheeling, Illinois, and Tetracore, of Gaithersburg, Maryland. It takes 15 minutes to react to the presence of anthrax, and it is the only rapid field test now available. Tom Fryzel, the marketing manager of Alexeter Technologies, says that in the past fortnight the company has shipped what would normally be three months' inventory to emergency services, corporate-security outfits, groups connected with the armed forces and a few places “that you can probably imagine but we cannot talk about”. The test is done by shaking up a sample of the suspect material in a proprietary solution, and then placing drops of the mixture on to the strip. Antibodies specific to anthrax are present on the strip and attach themselves to any anthrax bacteria in the sample. When this happens, the antibodies detach themselves from the strip and migrate along it, to reveal two red stripes printed underneath.

For forensic purposes, each strip also carries a chip that stores its manufacturing details. When a strip has been used, it is placed in a unit which writes the results, along with the date, time and name of the operator, into the chip. These data can then be made available to any criminal investigation or legal case that results.

The founders of Tetracore were part of a team of scientists from the Naval Medical Research Institute, in Bethesda, Maryland. They are now working on new methods for detecting a range of infectious agents such as plague and smallpox, using field versions of gene-amplification technology. A particularly promising line for the company is a genetic field test for foot-and-mouth disease, which it hopes will be brought out in Brazil this week. The test works in an hour, and can detect the virus even before symptoms have appeared.

Anthrax-detection strips seem likely to become a common feature in the postrooms of large organisations. They will not, however, give absolute assurance. A negative response still has to be checked in the laboratory. But it provides enough certainty to avoid panic. And a strong positive, according to Mr Fryzel, means that you might as well close the doors and round people up there and then.

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Malnutrition

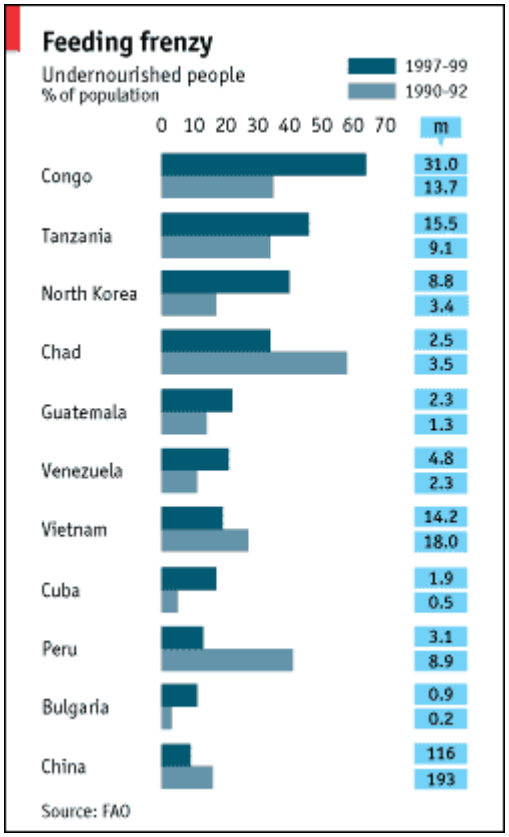
Hunger strikes

Oct 18th 2001
From The Economist print edition

The number of underfed people is dropping, but not fast enough

AS AMERICA and its allies march to war in Afghanistan, they claim they are fighting more than the Taliban. Thousands of tonnes of food, some dropped from the skies, some delivered overland, are meant to defeat an even fiercer enemy, starvation, which threatens at least 7.5m Afghans. They are not alone. Around the world, an estimated 815m people are undernourished, according to a new report from the Food and Agriculture Organisation (FAO).

Five years ago, 186 countries proposed to halve the number of undernourished people by 2015. Some, such as Peru and Vietnam, have made considerable progress. Others, among them Guatemala and Tanzania, are losing ground. Overall, the number of undernourished people is dropping by 6m a year. But to reach the 2015 target, that annual decrease needs to be 22m.



Nature is partly to blame. Drought in Kenya, floods in Cambodia and earthquakes in El Salvador have all taken their toll. AIDS, too, is devastating agriculture. The FAO reckons that roughly 7m farm workers have died of the disease in the worst-afflicted parts of Africa since 1985. But man-made disasters are also responsible. Civil wars in Angola and Congo have pushed almost 19m people off the land. Governments in many poor countries have favoured urban over rural populations, and have also underinvested in agricultural projects, such as better irrigation works and roads to move goods to market. Nor are rich countries doing as much as they could to help. Overseas-aid budgets have been slashed, particularly for agriculture, while domestic agricultural support and export subsidies have hurt poor countries struggling to make a living from farm trade.

The FAO had hoped to hold an international summit in Rome, in early November, to discuss ways to deal with these problems. But it looks as if this meeting will be postponed—in part a casualty of the terrorist attacks in America, and in part because the Italian government is reluctant to play host to any big meeting after the mess at the G8 summit in Genoa earlier this year. It will take large helpings of political will to relieve world hunger. Just getting governments to the table is proving hard enough.

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Hormones and health

Vive la différence

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Oestrogen may be good for you, even if you are male

PA

Is he or isn't she?

WOMEN may be the gentler sex, but they are hardly the frailer. For a century or more, women of all races and regions have outlived their mates. In Japan, the world's longest-lived nation, they can expect to survive for 84 years, while men manage just 77.2. In America, the corresponding figures are 79.2 and 73.6. Of the 25 most populous countries, only in Bangladesh do men outlive women—and even there it is only by a few months.

Men smarting from the injustice of this might take some comfort from the fact that, when epidemiologists adjust life-spans to account for quality of life, the feminine advantage is reduced. Although women live longer than men, they are less healthy.

Much of this can be explained by the actions of female sex hormones, the chemical messengers that cause the development of feminine features. At an American Physiological Society conference this week in Pittsburgh, researchers presented studies that show the impact of sex hormones on health, and pointed out ways in which these compounds might be used to treat both men and women.

Sex on the brain

Besides the influences that female hormones have on women's bodies, they also induce some effects on the female brain that researchers are keen to replicate in the male. For example, female sex hormones seem to encourage the circulation of blood to the brain. Mark Kaufman and his colleagues from McLean Hospital in Belmont, Massachusetts, gave nine men and 13 women identical doses of cocaine, which constricts the vessels that feed blood to the brain, thus causing brain damage.

In most of the body, blood circulation did not vary with sex or menstrual phase. In the brain, however, the differences were striking. In men, the cocaine dose led to a 20% drop in the volume of blood passing through the brain. In women, the drop was 10% if they were in the last week of their menstrual cycle and zero if they were in the first week. That could explain why male cocaine users suffer so much more brain damage than female users—and could also point the way to a medicine that would prevent such damage.

Oestrogens, as female sex hormones are known, would be the main ingredient of such a medicine. Oestrogens reduce heart disease, protect the brain from injury following a stroke, and improve short- and long-term memory. In the early decades of their lives, women produce vastly more oestrogens than men. After women reach the menopause, however, men catch up. According to Barbara Sherwin, a psychologist at McGill University in Canada, the oestrogen level of a 72-year-old man is three times that of a woman of equal age. Unsurprisingly, post-menopausal women suffer roughly the same risk of heart disease as older men.

Phyllis Wise, Dena Dubal and their colleagues at the University of Kentucky are investigating how one sort of oestrogen protects the brain from injury after a stroke. Estradiol, the commonest variety of the hormone, acts on two types of receptors, ER-alpha and ER-beta. Following a stroke, mice that are genetically altered to lack ER-alpha suffer twice as much brain damage as normal mice, or mice lacking ER-beta. The ER-alpha receptor, therefore, seems to be more involved in safeguarding brain cells,

perhaps by activating the production of proteins that help them heal. That knowledge could lead to an antistroke drug or, at least, a drug that stimulates only the ER-alpha receptor, and thus avoids side-effects that might be associated with ER-beta stimulation.

Oestrogen-based drugs might also help to ward off senility, since oestrogens have often been shown to enhance performance in memory tests for ageing women. Now, psychologists are starting to investigate whether older men can also benefit from these effects of oestrogens. For the past year, Dr Sherwin has been studying some 40 “older” male volunteers to find out whether dosing them with oestrogens affects their performance in tests such as word recall. In another year, she will learn the results.

Oestrogen treatment is not without dangers. Some studies have found that, over a prolonged period, the hormone-replacement therapy often prescribed to post-menopausal women increases their risk of breast cancer. For men, dosing up on oestrogens is equally unappetising. It sometimes causes their bodies to develop feminine sexual features, such as breast buds. But if ways can be found to circumvent these problems—for example by stopping up oestrogen receptors in breast tissue with molecular dummies when a patient is undergoing hormone treatment—the benign influence of female hormones on both sexes might be felt more widely.

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Companies at sea

Marksism today

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THE near destruction of a once great company is an awful sight. In Judi Bevan's lively and judicious account, one astonishing aspect of the implosion of Marks & Spencer, Britain's most famous retailer, was its speed. In the year to March 1998, the company had enjoyed the highest return on sales of any European retailer.

The Rise and Fall of Marks & Spencer
By Judi Bevan

Profile Books; 288 pages; £16.99

Buy it at Amazon.co.uk

What went wrong? Ms Bevan describes a company that simply grew too pleased with itself. Its executives forgot how to listen to customers or to staff. The business had a marvellous run in the difficult years of the early 1990s under Sir Richard Greenbury, an instinctive retailer who, reports Ms Bevan, approached every tricky decision by asking what Simon Marks, the brilliant son of the company's founder, would have done. But to continue profit growth in the second half of the 1990s, he pushed the business too hard, Ms Bevan argues. When nemesis arrived, the company was largely unprepared, run “by people who had known nothing but success”.

Sir Richard's successor, Peter Salsbury, inherited a business already heading south. He sent it into free fall with a series of restructurings which rooted out some of the company's smugness but at the cost of destroying its soul. “Salsbury and his new team rushed around changing, consulting and revamping to little purpose,” records Ms Bevan. “Lack of confidence cascaded down to the humblest part-time check-out assistant.”

Would everything have been different if the M&S bosses had followed the teachings of Simon Marks? Ms Bevan believes so. The company would have stayed smaller, and avoided making such a giddy return on sales. “Product, people and property” was the Marksist creed. But such focus and self-restraint is a luxury that only a well-run family business can afford. These days, M&S is simply one more struggling retailer.

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Leos Janacek

On a different path

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After the end of classical music's cold war, listeners have discovered a musical third way

FOR much of the 20th century, contemporary classical music was divided, like so much else, into two camps. On one side stood the partisans of Arnold Schoenberg, an Austrian master of atonal and 12-tone composition, a rigorous system which replaced familiar melody and traditional harmony with completely novel arrangements of pitches. Opposing them were devotees of Igor Stravinsky, who in such masterpieces as “The Rite of Spring” (1913) showed that radical music could be melodically and rhythmically gripping, and not simply a matter of unfamiliar tone relationships. Stravinsky himself turned eventually to a terse and cool neo-classicism that lacked the rhythmic vitality and open-hearted expression that supporters had greeted in his earlier music.

Unlike the actual one, this musical cold war ended not in victory for one side or the other, but in the realisation that musical choice was not limited to a constricting either-or between Schoenberg and the early Stravinsky. In recent times, listeners and critics have grown ever readier to explore musical third ways, and Leos Janacek is one of the principal beneficiaries. A Czech from Moravia, he spent most of his life (1854-1928) in provincial obscurity but wrote some of the most compelling modern compositions, and not only for voice. It could even be argued that his provincialism was the making of him. While the two giants and their followers disputed the new orthodoxies, Janacek cultivated a style of his own, rooted in the modes and rhythms of Moravian folk music, and in the inflections of speech and birdsong, which he transcribed assiduously.

He was inspired less by abstract musical systems than by human events, personal and political. Few composers have chosen a demonstration as a subject for a piano work, but Janacek's “Sonate, 1-X-1905” was prompted by a street protest in his hometown of Brno, in which Austrian troops killed a worker calling for the establishment of a Czech university. It is an extraordinary work, beginning with an uneasy “Presentiment” and concluding with a stark, mesmerising movement simply entitled “Death”.

Much of Janacek's music has a similar autobiographical immediacy. Two other piano works, “On an Overgrown Path” (1908) and “In the Mist” (1912), reflect his melancholy but defiant state of mind on having reached his sixth decade without the recognition he deserved.

In 1917, at the age of 63, he met and fell deeply in love with Kamila Stosslova, a housewife 38 years his junior. Though unconsummated, the relationship lasted the rest of his life and is reflected in many compositions, especially two remarkable string quartets: “The Kreutzer Sonata”, based on Tolstoy's story of marital discontent, and “Intimate Letters”, a passionate outpouring which is still one of the most daring works in the quartet repertoire.

Janacek's infatuation fired his talents, and new impetus came also with the creation of Czechoslovakia at the end of the first world war. His patriotic fervour informs his great “Sinfonietta”, which begins with an exhilarating fanfare, and his “Glagolitic Mass”, set not in Latin but in Old Slavonic. Ian Bostridge, a British tenor, has suggested that Janacek's song cycle, “The Diary of One who Disappeared”, is a sly Czech riposte to the famous German sequences by Schubert, “Die Schöne Müllerin” and “Die Winterreise”. Whereas Schubert's lovelorn heroes end in desolation and death, Janacek's protagonist goes off happily with his gypsy lady—as Janacek no doubt wished he could with Kamila.

The heart of Janacek's achievement is his vocal music, and above all his operas, which have become staples of the international repertoire. As with the rest of Janacek's career, they took a while to arrive: British audiences, for instance, heard their first Janacek opera only in 1951. His works were considered difficult because they were in Czech (though Janacek authorised translations) and because their dramatic intensity often taxed the range and technique of singers and musicians. And Janacek's subject matter could seem daunting: “The Cunning Little Vixen”, for instance, requires most of the cast to appear as animals, and the heroine of “The Makropoulos Case” is a 300-year-old woman.

But the popularity and stature of Janacek's music has risen steadily, thanks to the irresistible force of the composer's musical and dramatic imagination, and to his unfailing capacity to make characters live. His first operatic success, “Jenufa”, concerns a young woman whose illegitimate child is secretly killed by her overbearing stepmother. Its second act consists largely of two unforgettable soliloquies, the first by the mother girding herself to her terrible deed, then the daughter, moving from fear to desolation. Yet somehow the opera ends in an uplifting spirit of acceptance, forgiveness and new strength.

Indeed, a sense of renewal and continuity gives Janacek's operas their particular stamp. Even in the teeth of fate, the tragic heroine of “Katya Kabanova” has a vision of the beneficence of nature, and that vital cycle is at the heart of “The Cunning Little Vixen”, with the human and natural worlds allied in the vital process of life. Though the witty creature of the title dies as she must, she has left behind another generation of foxes and vixens, and the opera's last scene is a radiant orchestral evocation of the harmony of things. In accordance with Janacek's wishes, this music was played at his funeral in 1928.

The older Janacek grew, the more he celebrated life, even in its most unlikely aspects. In his penultimate opera, “The Makropoulos Case”, the timeless heroine renounces her immortality because without death, the natural motion and emotion of existence cease. “In me life has stopped”, she cries, as Janacek's broad, wise and exultant music surges around her. The composer's faith in life is even more movingly depicted in his posthumously staged opera, “From the House of the Dead”. Based on Dostoevsky's prison diaries, and adapted by Janacek himself, it consists of convicts telling of broken lives. Yet even here there is tenderness and hope, what the composer, who was not a conventionally religious man, called “a spark of God”, amplified by his many-sided, subtle, affirming score. That Janacekian spark has come to illuminate concert halls and opera houses all over the world.

Good recordings of Janacek's piano music include those by Rudolf Firkusny (RCA Red Seal), Alain Planès (Harmonia Mundi) and Andras Schiff (ECM). For the string quartets, try versions by the Skampa (Supraphon) and the Hagen (DGG). Many fine discs exist of the operas. Barcelona, Brussels, Hamburg, Munich, Prague, San Francisco, Sydney and Vienna are all staging Janacek operas in the 2001-02 season. Garsington Opera (Oxfordshire, England) puts on two little-heard ones, “Osud” and “Sarka”, next summer.

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The diamond business

Endless quest

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ALTHOUGH these lively histories share a villain—De Beers, the dark manipulator of the diamond trade—their indictments lack conviction. Neither author is able to persuade himself, let alone his readers, that the cartel is so very bad. By contrast their heroes really are heroic. For Kevin Krajick the good guys are the prospectors; for Matthew Hart they are the diamond cutters too.

Since the late 19th century, when De Beers came under the control of Cecil Rhodes, it has dominated the diamond market. It sells about $5 billion-worth of rough diamonds a year, closely adjusting supply to demand.

American trustbusters and crimewatchers have at various times concluded that this constituted anti-competitive behaviour. But who really has an interest in cutting diamond prices by breaking up the cartel? As dealers in Antwerp and Tel Aviv will admit, the diamond business rests on two supports: greed and vanity. Few of those in the trade, and none of the estimated 85% of American women who own at least one piece of diamond jewellery, want to see them cheapened. As that wise song has it:

> He's your guy when stocks are high, But beware when they start to descend.That's when those louses go back to their spouses.Diamonds are a girl's best friend.

The De Beers cartel is also the world's best hope of crippling the trade in so-called blood diamonds—the diamonds that promote and prolong the wars in Sierra Leone, Angola and elsewhere in Africa. It alone has the market muscle, through its purchases and through identification marks, to bring diamonds to market with reliable guarantees of origin.

Barren Lands: An Epic Search for Diamonds in the North American Arctic
By Kevin Krajick

Henry Holt/Times Books; 442 pages; $26

Buy it at
Amazon.com
Amazon.co.uk

Diamond: A Journey to the Heart of an Obsession
By Matthew Hart

Walker & Co; 288 pages; $26. Fourth Estate (January); £15.99

Buy it at
Amazon.com
Amazon.co.uk

But though the story of De Beers and what it actually does is a worthy one, it is also rather dull. Mr Krajick, a talented storyteller, strikes it rich when he examines the freelance prospectors whose finds sometimes threatened the cartel's hold on the diamond trade. John Williamson, for instance, a Clark Gable lookalike who, clad in filthy shorts and sickened by dysentery and malaria, searched in vain for gemstones in Tanzania. Unable to pay his bills, he was humiliated in front of his friends in a bar by a hotel manager in Mwanza. His revenge was sweet: years later, now the finder and owner of one of the world's largest diamond mines, “he bought the Mwanza hotel, strolled in, and threw the manager into the street.”

More strictly heroic are Chuck Fipke, a relentless prospector, and his geologist partner, Stew Blusson. Before they got going, North America was known as a good place to sell diamonds but a bad place to find them. Working in terrible terrain in gruesome weather in winter, eaten alive by mosquitoes, blackflies and deerflies in summer, they made one of the world's richest discoveries of diamonds in the Barren Lands of northern Canada.

But, as yet, none of their finds has come up with a diamond to rival the famous stones lauded in Mr Hart's history. These include the majestic Koh-i-Noor, the massive Cullinan and the Hope diamond, which once graced the unfortunate neck of Marie Antoinette and which, in its 40 years at the Smithsonian in Washington, DC, has drawn more visitors than anything else on display.

Gems owe much of their beauty to the craftsmen who cut them. Mr Hart gives a detailed account of the three years Gabi Tolkowsky spent converting the Centenary diamond discovered in South Africa in 1986,

into a magnificent sparkler with 247 facets. This masterpiece proceeded not just from the heart and mind of a single man but from generations of a great Jewish diamond family. Gabi's great-uncle, Marcel Tolkowsky, a mathematician as well as a diamond cutter, invented the modern brilliant cut in 1914 when he laid down the precise facets and angles needed for maximum sparkle. Gemstones cut by virtuoso craftsmen such as these inspired what the trade magazine *Advertising Age* has called the greatest advertising slogan of the 20th century: “A diamond is forever”. And that true-love slogan, you've guessed it, belongs to De Beers.

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Germ warfare

Topical treatment

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THIS is not a book for anxious readers, or those who want simple answers. In some respects, it is reassuring about germ warfare and biological terror. Its close, well informed reporting on germ-weapon work in America, Russia, Iraq and elsewhere shows how cumbersome it is to make lethal germs in large quantity and then deliver them, alive, in some weapon or other. Many of the book's stories are about failed projects or feared disasters that never happened.

Germs: Biological Weapons and America's Secret War
By Judith Miller, Stephen Engelberg and William Broad

Simon & Schuster; 384 pages; $27

Buy it at Amazon.com

"Germs" is nevertheless alarming, and so intended by its authors, three *New York Times* reporters. (One of them, Judith Miller, experienced the alarm at first hand when she opened a powdery envelope last week that, luckily, turned out to be harmless.) The book is disturbing for what else it describes: the scale and intensity of bio-weapons efforts (offensive or defensive), the slipperiness of trade in bio-materials and the difficulty friendly governments have in keeping track of it all. Germ attack is hard. But so is germ defence. And germ counter-intelligence seems hardest of all.

Proposals are tentatively offered at the book's end: a Hippocratic oath for gene researchers and a world criminal jurisdiction for traffic in germ weapons. More broadly, the authors believe bio-defence should be strengthened. In the advance proof of "Germs", they wrote that there was no natural constituency for this in Washington. Events since publication have surely created one.

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The medieval crusades

Stirring stuff

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WARS of religion usually turn out, on examination, also to have been about wealth and power. The medieval crusades were religious wars in a peculiar sense. The land they disputed was hallowed by divine feet and saintly blood and bones: relics which commanded power, prestige and a considerable price. Recruitment was supported by alluring spiritual benefits as well as cant. Crusaders, bound for Jerusalem, had the status of pilgrims and the reward of indulgences. Muslim defenders could claim to be martyrs. Enemies, not always easily identified in frontier regions where cultures overlapped and interpenetrated, were distinguishable by creed. The battle-cry of the poet of the "Song of Roland" was "Infidels are wrong and Christians have the right".

Warriors of God: Richard the Lionheart and Saladin in the Third Crusade
By James Reston Jr

Doubleday; 364 pages; $27.50. Faber and Faber; £20

Buy it at
Amazon.com
Amazon.co.uk

Religious doctrine justified the conflict. Religious odium exacerbated it. But it was not caused by religion. Religion was the whiting on the sepulchre. Christendom was the developing world of the day, spilling into Islam the economic migrants of the people's crusade and the children's crusade. The permanent colonists who formed the fighting strength were escapees from a world of restricted social and economic opportunity at home.

The fears that bred crusading hatreds were a mirror-image of today's resentments of the great Satan of the West: fears of a culture, labelled alien, of superior wealth and might. Yet even in the midst of conflict, which usually nourishes hostility, Christians and Muslims exchanged culture and grew in awareness of what they had in common. Islamic learning enlightened the West. In frontier zones, adherents of both traditions co-existed, worshipped at each other's shrines, served each other's lords, took surprising sides in each other's conflicts. The supposed *beau idéal* of the Spanish crusades, El Cid, spent most of his career, after he left Castile, in the service of Muslim amirs. Saladin and Richard the Lionheart were self-advertised as credal foes but, in chroniclers' depictions, shared the great common ethos of their time: the code of chivalry.

James Reston Jr rides with them in the late 12th-century third crusade. Well aware that war makes for a rattling story, he devotes his gift for words to the construction of a thrilling narrative, unashamedly infused with what he calls "elemental romance". His heroes are caricatures whose personality traits transcend the facts: Saladin is a paragon of "humility, compassion, mysticism, piety and restraint". His worst vice is to be "more lenient than wise". Richard is a university common-room bogey: anti-Semitic, imperialist, morally mercurial, sexually exploitative—lion-hearted but more broadly bestial too.

The moral is the message: the crusades were "madness" and massacre, "unprecedented before Hitler". The scholarship is unsearching. Without the background of Zengid politics or Islamic schisms, and without the context of the conflicts of Christendom, it is impossible for the reader to make real sense of Saladin, or a real king of Richard. Still, Mr Reston has a timely warning against loose talk of new crusades today: nothing is more likely to stir up new Saladins—or on the rebound, you could add, new Lionhearts.

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Autobiography

Etched on his mind

Oct 18th 2001
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ROMANTIC chemistry sounds like a contradiction in terms, but the two words pair naturally in this book. Oliver Sacks is best known for his accounts of other people's strange neurological disorders, including the husband who famously mistook his wife for a hat. Here Dr Sacks turns his attention to himself and to a boyhood which, in its way, was almost as peculiar. Born in 1933 into a large Jewish family of scientists, mathematicians, doctors and scholars, he remembers his early years as having passed in a kind of intellectual rapture. It was an Elysium, he says, a magic land of metals, crystals, elements, atoms, lightwaves, forces, numbers and proportions, each of which inspired him with intense curiosity and an almost mystical sense of beauty.

Uncle Tungsten: Memories of a Chemical Boyhood
By Oliver Sacks

Knopf; $25
Picador; £17.99

Buy it at
Amazon.com
Amazon.co.uk

Dr Sacks's Uncle Tungsten got his name from the metal filaments in the light bulbs that he manufactured in a factory on London's Farringdon Road. There, with the sleekly oiled machines, the furnace, the cabinets full of metal samples, the child was inducted into his uncle's science. Handling metals, watching them react, even listening to them—"The sound of tungsten", his uncle would say, "nothing like it"—he developed a kind of tenderness for them. And above all, his questions were always answered: for asking how or why, for being "scientific", says Dr Sacks, was "the family business", as natural to them as being Jewish or English.

His own home laboratory soon followed. He began to take his pocket money to a shop called Griffin and Tatlock—a name worthy of Harry Potter—where he could choose at will from among the slabs and ingots, the urns and carboys of chemicals, and the gutta-percha vessels of hydrofluoric acid, too corrosive for glass. The boy flourished. He needed, he says, "to smell and touch and feel", just as the great chemists had done. He loved the history of chemistry, a line of distant uncles, it seemed to him, reaching back into the 17th and 18th centuries: Robert Boyle, then Joseph Priestly, Antoine Lavoisier, Humphrey Davy and others, all of them measuring and weighing among fumes and flames. As far as possible he recapitulated their discoveries, and it was only when he caught up with quantum mechanics and the "colourless, scentless, mathematical world" that the chemical enchantment of his childhood was broken.

But quantum theory was not the only serpent in this Eden. There was emotional trauma too. At the outbreak of war, his London day-school was evacuated, and its headmaster, now beyond parental notice, starved, beat and tormented the boys. His elder brother suffered horribly and later became psychotic. Young Oliver himself was overwhelmed by a sense of abandonment and exile. The Sacks parents remained curiously unaware, wrapped up in their work (they were both dedicated doctors), unreachable. Even after young Oliver had left, there remained a sense that some special awfulness might be reserved for him. Science was his refuge, a place of order and stability that could not fail him.

The seeds of that other Oliver Sacks—a very human, human scientist—were always there. Stories, biographies and above all words ("Bronze!—the very word was like a trumpet to me") had always fascinated him. Dr Sacks mourns, with a Wordsworthian sense of loss, the passing of those "lyrical, mystical perceptions of childhood", those "sudden landscapes of glory and illumination". And yet the mixture of rekindled passion, humility and humour with which the older man pays homage to the boy, shows just how little he has faded into the light of common day.

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New fiction

A Nobel downer

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From The Economist print edition

SIR VIDIA NAIPAUL, the choleric and controversial author of “A House for Mr Biswas” and “Enigma of Arrival”, rose from modest beginnings in Trinidad to win (last week) the Nobel prize for literature. His heroes rise like him, but also fall. In “Half a Life”, his latest novel, Chandran, a 19th-century Brahmin, saves his pennies and travels to town to take a job as a clerk in the maharaja's palace. His son climbs up the civil service, and his well-educated grandson burns his copies of Shelley and Hardy when Mahatma Gandhi calls for a boycott of the universities.

Half a Life
By V.S. Naipaul

Knopf; 211 pages; $24.
Picador; £15.99

Buy it at
Amazon.com
Amazon.co.uk

No one notices the protest, so he takes on the caste system directly by marrying a dark-skinned girl, in common parlance, a “backward”. Sent in disgrace to work in the maharaja's tax office, he seeks refuge in a temple where eventually he takes a vow of silence and is taken up by a gullible visitor, Somerset Maugham, in whose honour he names his son Willie.

The young, mixed-caste boy is sent to a Christian school and then to London on a college scholarship, where he learns mostly about sex. Things in England are not like in India, his first lover teaches him. You have to try harder. Willie begins to write, and though fiction allows him to embroider, if not totally rewrite, parts of his past, the effort is all too much. After a single book, he gives up, though not before he is approached by a fan, Ana, heiress to an estate in Portuguese-run Mozambique. Willie follows her to Africa, where he learns some more about sex, but does no writing. Sir Vidia writes knowingly about Africa, and his sentences are cool and precise. But the author's charmless, loveless eye brings this effort crashing down.

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About sponsorship

Donald Cohen

Oct 18th 2001
From The Economist print edition

Donald Cohen, head of the Yale Child Study Centre, died on October 2nd, aged 61

NATHANIEL LAOR'S abiding memory of the Gulf war is of sitting in an underground bunker in Tel Aviv just after his children's clinic had been struck by a Scud missile. All of a sudden, the mobile in his hand began to ring. It was Donald Cohen. “Nati,” he asked the frightened man, “what do you need? How can we help?”

Mr Cohen had helped before. He brought Mr Laor, an Israeli child psychiatrist, into the Yale Child Study Centre. And he encouraged him, after Mr Laor returned to Israel, to set up the country's first psychiatric trauma unit for children. Over the years, Mr Cohen helped again and again. He travelled to Israel twice a year. In between visits, he was constantly on the phone, calling west coast Americans before they went to bed and Israelis as soon as they got up, to share news, offer professional advice and raise funds.

Mr Cohen urged others to reach out too. He travelled to Saudi Arabia to solicit donations for the first Arabic journal of child psychiatry. He helped found an association of child and adolescent psychiatry for the eastern Mediterranean. When the Arabs complained that Israelis were being invited to the first meeting at Sharm el-Sheikh in February 2000, Mr Cohen brought them in under the umbrella of the American delegation. Many of the Israeli doctors had never met an Egyptian, let alone an Iraqi or an Iranian, but their damaged children, they found, shared many traits. Mr Cohen encouraged the Israelis to share their experience with the overstretched mental health clinics in Gaza and Ramallah. When he could not travel into Palestinian territory, Mr Cohen brought both sides together for meetings on the border. For the sake of the children, he said, the talking had to go on.

Poor boy, rich child

Mr Cohen was raised in a poor Jewish neighbourhood on the west side of Chicago. His father sold used bakery equipment. The Cohens were very observant Jews, who believed in discipline at home and, politically, in enlightened government intervention to help the disadvantaged. To the end, Mr Cohen refused to write on Saturdays, preferring to do *mitzvot* (Yiddish for “good deeds”), though every week he would count the moments till sundown when he could check his e-mails. Mr Cohen's was the first generation in his family of Polish émigrés to go to university, studying philosophy and psychology and then medicine. His world opened up when he won a Fulbright scholarship to Cambridge University and travelled to Israel for the first time.

He judged his own work, he later told a friend, by “the size of the ideas”. Curious, ebullient and ever the optimist, Mr Cohen liked to reach out to damaged children and draw them back into the fold of normality. When he began working, Tourette's syndrome, with its terrifying array of symptoms—tics and twitches, yelling and cursing—was regarded as an exotic and untreatable condition. Mr Cohen's team at Yale brought together specialists in biology, genetics, neurology and psychology to provide a framework of treatment that is now commonplace, not just for patients, but also for their families.

One of his patients was a young man he called by a pseudonym, “Abe”. At their first meeting, Abe yelled and cursed and banged his head about so violently his parents had to bring him in tied to a chair to stop him injuring himself. Though terrifying to behold—and terrified—Abe, under Mr Cohen's guidance, gradually overcame the demons that possessed his mind. He grew very good at describing his inner world. Inside, he said, were two bulls attacking each other while he was caught, helpless, between them.

For nearly 20 years, Mr Cohen treated Abe four times a week. He also wrote extensively about him, always stressing how much he had learned from his patient. Abe would later call their work a “collaboration”. Today Abe is a champion weight-lifter and is about to get married.

Mr Cohen's interest in the effects of violence on children dates back a decade. New Haven, despite a population of only 125,000, was a poor and troubled city. At the centre was Yale, safe in its monolith. But the rest of the city was in the grip of an epidemic of crime, with more than 20,000 major incidents being reported every year. Just as he had done for Nathaniel Laor in Israel, Mr Cohen picked up the phone and rang Nicholas Pastore, New Haven's chief of police. “What can we do? How can we help?” The two men brought together police, mental-health workers and the criminal justice department to improve training and help young criminals and their families. The Yale programme has been replicated in 12 American cities.

Inner-city violence differs from war in a number of ways. War brings families together and there is a reasonable expectation that it will end; urban warfare has none of this. A child overwhelmed by violence feels helpless, though, whatever the root cause. That child can withdraw into himself, with terrible consequences for his ability to trust and to learn. Or he can refuse to be passive, choosing instead to take direct action against his helplessness. In a nutshell, he becomes violent himself. Mr Cohen never stopped reminding people of the dangers. That is why he was always on the phone.

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Overview

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America's industrial output fell by 1.1% in September, a bigger fall than expected. The Federal Reserve's measure of industrial output has fallen in each of the past 12 months, chalking up the longest period of continuous decline since the second world war.

American consumers have been sending mixed signals. Retail sales plunged in September by 2.4% in value terms from the previous month, their biggest drop in nearly a decade. But there was some encouraging news: the University of Michigan's consumer-confidence index rose to 83.4 in October from 81.8 in September, reflecting expectations of better times ahead.

Housing starts rose by 1.7% in September, although the housing market still looks jittery. The National Association of Home Builders' Housing Market Index, a measure of home-construction expectations, suffered the largest one-month drop in its 16-year history, falling from 56 to 48. Index values below 50 mean that more builders see current sales conditions as bad than as good.

The dollar climbed to its highest level against the yen since September 11th.

Euro-area industrial production rose by 1.1% in August. Inflation in the euro area rose by 0.3% in September. Germany's ZEW survey of analysts and institutional investors showed a decline in business conditions in October compared with the previous month. Even so, the October figures were slightly better than those collected in the second half of September.

Japan's trade surplus shrank by 37.3% in the year to August, reflecting weakening global demand for Japanese exports. Exports in September are expected to drop again in response to the terrorist attacks in America. Imports fell by 2.9% in August, marking their first downturn in 22 months, as domestic demand continued to fall.

Inflation faded in **Britain**, dropping by 0.3% to 2.3%, back below the Bank of England's 2.5% inflation target. Unemployment, as measured by International Labour Organisation standards, rose to 5.1% in the three months to August, from 4.9% in the previous quarter.

The terrorist attacks in America have been felt far away. Consumer confidence in **Australia** fell by 9% in October, although it is still above the lows earlier this year; and **New Zealand** suffered its largest drop in consumer confidence in 17 years.

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Output, demand and jobs

Oct 18th 2001
From The Economist print edition

% change at annual rate

	GDP		The Economist poll GDP forecasts		Industrial production	Retail sales (volume)	Unemployment % rate	
	1 qtr	1 year	2001	2002	latest	latest	latest	year ago
Australia	+ 3.6	+ 1.4 Q2	+ 2.3	+ 3.5	– 0.4 Q2	+ 0.7 Q2	6.7 Sep	6.0
Austria	+ 0.2	+ 1.2 Q2	+ 1.6	+ 1.6	+ 4.6 Jul	– 0.2 Jun	3.9 Aug	3.6
Belgium	– 2.4	+ 1.7 Q2	+ 1.6	+ 1.6	– 2.6 Aug*	– 5.0 Jul	11.6 Aug*	11.9
Britain	+ 1.7	+ 2.3 Q2	+ 2.0	+ 1.9	– 2.3 Aug	+ 5.9 Sep	5.1 Aug†	5.3
Canada	+ 0.4	+ 2.1 Q2	+ 1.6	+ 1.8	– 3.6 Jul**	+ 3.5 Jun	7.2 Sep	6.9
Denmark	+ 2.4	+ 1.3 Q2	+ 1.2	+ 1.8	+ 0.8 Aug	– 0.5 Aug	5.1 Aug	5.4
France	+ 1.1	+ 2.3 Q2	+ 1.9	+ 1.6	+ 1.5 Aug	+ 0.6 Aug	9.0 Aug	9.5
Germany	– 0.1	+ 0.6 Q2	+ 0.8	+ 1.2	– 1.3 Aug	+ 0.4 Aug	9.4 Sep	9.4
Italy	+ 0.1	+ 2.1 Q2	+ 1.8	+ 1.5	– 1.6 Aug	– 1.5 Jul	9.4 Jul	10.5
Japan	– 3.2	– 0.7 Q2	– 0.5	– 0.4	–11.7 Aug	– 2.1 Jun	5.0 Aug	4.6
Netherlands	+ 1.5	+ 1.4 Q2	+ 1.4	+ 1.8	– 2.2 Aug	+ 2.7 Jun	2.0 Sep§	2.5
Spain	+ 1.9	+ 2.9 Q2	+ 2.7	+ 2.2	+ 2.8 Aug	na	13.0 Aug	13.9
Sweden	+ 1.3	+ 1.4 Q2	+ 1.8	+ 2.0	– 2.6 Jun	+ 3.0 Aug	4.3 Aug*	5.1
Switzerland	+ 1.7	+ 2.0 Q2	+ 1.6	+ 1.6	+ 4.2 Q2*	+ 3.6 Aug	1.7 Sep*	1.7
United States	+ 0.3	+ 1.2 Q2	+ 1.0	+ 1.0	– 5.8 Sep	+ 4.3 Aug	4.9 Sep	3.9
Euro area	+ 0.2	+ 1.7 Q2	+ 1.6	+ 1.5	+ 0.4 Aug	+ 1.3 Jul	8.3 Aug	8.7
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	– 6.7	+ 0.4 Q2	na	na	– 1.9 Aug	+ 6.8 Jun	7.8 Aug*	8.3
Greece	+ 2.8	+ 4.9 Q2	na	na	+ 1.0 Jun*	+ 8.0 Jun	na	na
Iceland	na	+ 3.62000	na	na	+ 2.5 2000	na	1.2 Jul	1.3
Ireland	na	+13.2 Q1	na	na	+ 0.1 Aug*	+ 6.2 Jul	3.7 Sep	3.8
Luxembourg	na	+ 8.52000	na	na	+ 2.7 Jul*	+ 8.2 Jul	2.4 Aug	2.7
New Zealand	+ 7.4	+ 2.8 Q2	na	na	+ 3.5 Q2*	+ 7.2 Q2	5.2 Q2	6.1
Norway	+ 0.5	+ 1.4 Q2	na	na	+ 0.9 Aug*	– 0.1 Aug	3.6 Q2	3.3
Portugal	– 0.3	+ 2.2 Q1	na	na	– 1.2 Aug*	+ 5.2 Jul	3.9 Q2	3.8

*Not seasonally adjusted. † Jun-Aug; claimant count rate 3.1% inSep. §Jul-Sep. **New series.

Text refers only to the first 16 countries listed

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Prices and wages

Oct 18th 2001
From The Economist print edition

% change at annual rate

	Consumer prices* latest		Consumer prices* year ago	The Economist poll consumer prices forecast 2001	The Economist poll consumer prices forecast 2002	Producer prices* latest		Producer prices* year ago	Wages/earnings latest		Wages/earnings year ago
Australia	+ 6.0	Q2	+ 3.2	+ 4.0	+ 2.5	+ 5.6	Q2	+ 7.4	+ 3.7	Q2	+ 3.9
Austria	+ 2.6	Sep	+ 3.0	+ 2.5	+ 1.6	+ 0.1	Sep	+ 6.2	+ 2.8	Aug	+ 1.9
Belgium	+ 2.3	Sep	+ 3.4	+ 2.6	+ 1.7	+ 0.7	Aug	+ 9.2	+ 2.6	Q2	+ 2.2
Britain	+ 1.7	Sep	+ 3.3	+ 2.0	+ 2.1	– 0.2	Sep	+ 2.5	+ 4.5	Aug	+ 4.0
Canada	+ 2.8	Aug	+ 2.5	+ 2.8	+ 2.0	+ 0.9	Aug	+ 3.9	+ 1.7	Jul	+ 1.1
Denmark	+ 2.3	Sep	+ 2.7	+ 2.4	+ 2.0	+ 0.7	Sep	+ 6.9	+ 4.7	Q2	+ 3.3
France	+ 1.6	Sep	+ 2.2	+ 1.9	+ 1.5	+ 0.7	Aug	+ 5.8	+ 4.2	Q2	+ 5.4
Germany	+ 2.1	Sep	+ 2.5	+ 2.4	+ 1.4	– 0.2	Sep	+ 7.2	+ 1.4	Jul*	+ 2.0
Italy	+ 2.6	Sep	+ 2.6	+ 2.7	+ 1.8	+ 1.2	Aug	+ 6.5	+ 2.5	Aug*	+ 1.8
Japan	– 0.7	Aug	– 0.5	– 0.6	– 0.6	– 0.2	Sep	+ 0.4	– 4.1	Aug*	+ 2.0
Netherlands	+ 4.7	Sep	+ 2.9	+ 4.7	+ 2.2	+ 1.9	Aug	+ 7.8	+ 4.3	Aug	+ 3.3
Spain	+ 3.4	Sep	+ 3.7	+ 3.7	+ 2.4	+ 1.6	Aug	+ 5.1	+ 2.9	Q2†	na
Sweden	+ 3.2	Sep	+ 1.3	+ 2.3	+ 1.8	+ 1.5	Aug	+ 3.7	+ 1.9	Jul*	+ 4.0
Switzerland	+ 0.7	Sep	+ 1.4	+ 1.3	+ 1.1	– 0.9	Sep	+ 2.8	+ 1.3	2000	+ 0.3
United States	+ 2.7	Aug	+ 3.4	+ 3.1	+ 2.1	+ 1.6	Sep	+ 3.5	+ 4.3	Sep	+ 3.7
Euro area	+ 2.5	Sep	+ 2.8	+ 2.6	+ 1.7	+ 1.7	Aug	+ 5.6	+ 3.0	Q2	+ 2.3
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 2.2	Sep	+ 4.2	na	na	– 0.1	Aug	+ 7.6	+ 4.8	Q2*	+ 4.6
Greece	+ 3.6	Sep	+ 3.1	na	na	+ 3.1	Aug	+ 7.9	na		na
Iceland	+ 8.0	Oct	+ 4.2	na	na	+ 6.8	Sep	+ 3.4	+ 8.8	Aug	+ 7.9
Ireland	+ 4.6	Sep	+ 6.2	na	na	+ 2.6	Aug	+ 6.5	+ 8.1	Q1*	+ 6.1
Luxembourg	+ 2.4	Sep	+ 3.4	na	na	– 0.4	Aug	+ 6.9	+ 5.2	Jul*	+ 8.1
New Zealand	+ 2.4	Q3	+ 3.0	na	na	+ 8.1	Q2	+ 5.9	+ 1.8	Q2	+ 1.7
Norway	+ 2.4	Sep	+ 3.5	na	na	–11.0	Sep	+ 7.4	+ 4.4	Q2*	+ 3.9
Portugal	+ 4.0	Sep	+ 3.4	na	na	– 0.2	Aug	+14.2	+ 2.4	Apr*	na

*Not seasonally adjusted. †New series.

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World music sales

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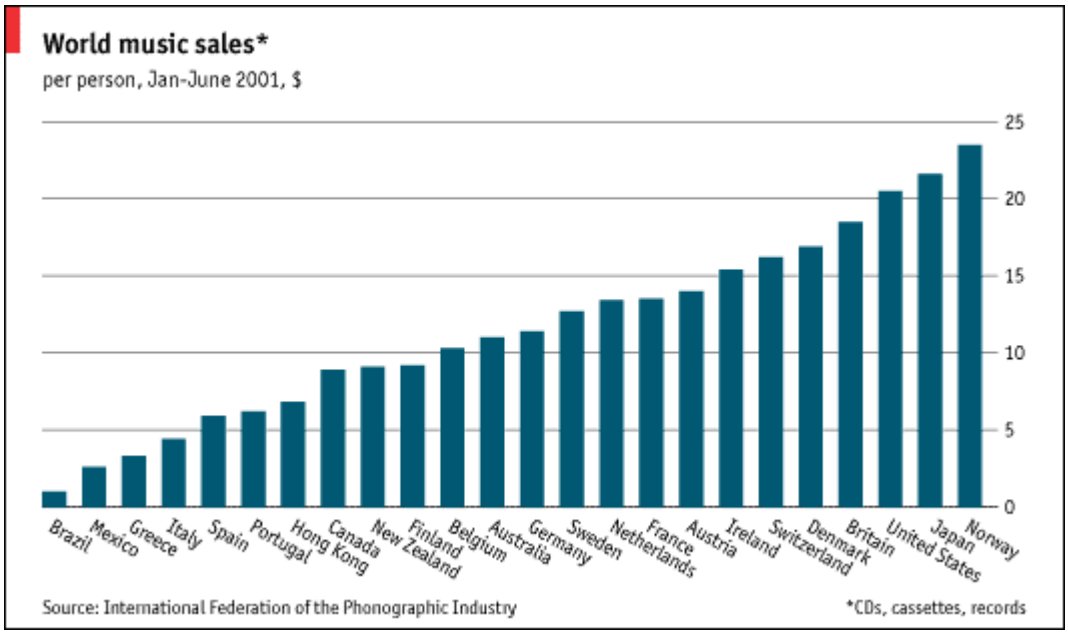
Consumers in Norway spend on average more than 20 times as much on recorded music as consumers in Brazil. But both countries have contributed to the downturn in the global music industry by buying fewer records than a year ago. In the first half of 2001, the value of global sales fell by 5% compared with the same period in 2000. The industry has been hit by consumers downloading free copies of pirated music from the web.



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Money and interest rates

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	Money supply* % change on year ago			Interest rates % p.a. (Oct 17th 2001)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+14.7	+ 7.7	Aug	4.38	6.42	4.22	5.41	6.10	5.53
Britain	+ 6.3	+ 8.0	Sep	4.38	6.06	4.49	4.76	5.12	6.09
Canada	+ 7.6	+ 3.6	Aug	2.92	5.62	3.49	5.25	5.65	7.16
Denmark	+ 6.7	+ 2.3	Aug	3.90	5.45	3.94	4.83	5.44	6.94
Japan	+11.8	+ 3.7	Sep	0.01	0.43	0.05	1.38	1.79	1.42
Sweden	+ 6.6	+ 2.5	Aug	3.70	3.97	4.03	5.17	5.14	5.17
Switzerland	+ 1.7	+ 3.2	Sep	2.23	3.50	2.30	3.03	3.74	4.68
United States	+ 7.5	+11.9	Sep	2.35	6.51	2.79	4.76	5.66	6.82
Euro area†	+ 3.1	+ 6.6	Aug	3.65	5.07	3.38	4.60	5.13	5.56

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 5.37%, Japan No.234 1.375%. Central bank rates: US fed funds 2.50%, ECB refinancing 3.75%, BOJ overnight call 0.001%, BOE repo 4.50%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, OM Fixed Income Exchange, Warburg Dillon Read, DRI-WEFA, Westpac, Thomson Financial Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Oct 18th 2001
From The Economist print edition

1995=100

	Oct 9th	Oct 16th*	% change on one month	% change on one year
Dollar index				
All items	63.2	62.8	– 5.8	–13.3
Food	65.3	65.2	– 4.8	– 9.4
Industrials				
All	60.4	59.6	– 7.2	–18.5
Nfa†	57.9	56.0	–11.0	–16.6
Metals	62.5	62.6	– 4.0	–19.8
Sterling index				
All items	68.0	68.4	– 4.8	–13.7
Euro index				
All items	90.5	90.9	– 4.4	–18.9
Yen index				
All items	80.8	81.0	– 2.7	– 2.8
Gold				
$ per oz	289.25	282.35	– 1.8	+ 4.3
West Texas Intermediate				
$ per barrel	22.49	22.30	–19.6	–33.5

* Provisional. † Non-food agriculturals.

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Stockmarkets

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From The Economist print edition

Market indices

	Oct 17th	2001 high	2001 low	% change on one week	% change on record high	% change on Dec 31st 2000 in local currency	% change on Dec 31st 2000 in $ terms
Australia (All Ordinaries)	3,170.0	3,425.2	2,867.4	+ 3.1	– 7.5	+ 0.5	– 7.1
Austria (ATX)	1,090.8	1,245.8	1,050.1	+ 3.9	–37.2	+ 1.6	– 1.6
Belgium (Bel 20)	2,605.9	3,030.4	2,322.6	– 3.5	–29.2	–13.8	–16.6
Britain (FTSE 100)	5,203.4	6,334.5	4,433.7	+ 1.0	–24.9	–16.4	–19.0
Canada (Toronto Composite)	6,956.8	9,348.4	6,513.1	+ 0.1	–38.9	–22.1	–25.1
Denmark (KBX)	222.7	294.3	197.8	+ 0.9	–26.2	–15.9	–18.3
France (SBF 250)	2,809.9	3,820.2	2,335.3	+ 2.5	–36.0	–25.5	–27.9
(CAC 40)	4,411.5	5,998.5	3,652.9	+ 2.1	–36.3	–25.6	–27.9
Germany (Xetra DAX)	4,644.8	6,795.1	3,787.2	+ 0.7	–42.4	–27.8	–30.1
Italy (BCI)	1,371.5	1,948.4	1,082.9	+ 3.8	–37.2	–28.4	–30.7
Japan (Nikkei 225)	10,755.5	14,529.4	9,504.4	+ 7.9	–72.4	–22.0	–26.5
(Topix)	1,087.6	1,441.0	863.4	+ 5.5	–62.3	–15.3	–20.2
Netherlands (AEX)	463.8	642.3	396.2	– 1.6	–33.9	–27.3	–29.6
Spain (Madrid SE)	779.7	963.9	648.6	+ 4.3	–32.0	–11.5	–14.3
Sweden (Affarsvarlden Gen)	211.0	293.1	177.5	+ 5.5	–47.3	–24.0	–31.3
Switzerland (Swiss Market)	6,025.6	8,135.4	5,110.2	+ 0.8	–28.4	–25.9	–26.4
United States (DJIA)	9,233.0	11,337.9	8,235.8	– 0.1	–21.2	–14.4	–14.4
(S&P 500)	1,076.3	1,373.7	965.8	– 0.4	–29.5	–18.5	–18.5
(Nasdaq Comp)	1,646.3	2,859.2	1,423.2	+ 1.2	–67.4	–33.4	–33.4
Europe (FTSE Eurotop 300)*	1,195.8	1,545.5	998.9	+ 2.0	–29.9	–22.0	–24.5
Euro area (FTSE Ebloc 100)*	1,032.4	1,404.1	843.6	+ 1.9	–33.4	–25.8	–28.2
World (MSCI)†	965.3	1,249.2	856.6	+ 0.8	–33.4	na	–21.0
World bond market (Salomon)‡	454.2	458.1	420.6	– 0.1	– 1.2	na	+ 2.3

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms.
‡Salomon Smith Barney World Government Bond Index, total return, in dollar terms.

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About sponsorship

Trade, exchange rates and budgets

Oct 18th 2001
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current account $bn latest 12 mths		The Economist poll % of GDP, forecast 2001	2002	Exchange rate trade-weighted† Oct 17th	year ago	Currency units per $ Oct 17th	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2001‡
Australia	+ 1.5	Aug	− 9.9	Q2	− 2.9	− 3.2	71.3	70.9	1.95	1.92	2.82	1.77	1.61	0.1
Austria	− 5.3	Jun	− 4.7	Jul	− 2.6	− 2.5	100.3	98.7	15.1	16.2	21.9	13.8	12.5	-0.6
Belgium	+ 11.7	Aug	+ 8.9	Jun	+ 4.1	+ 4.3	99.2	97.0	44.4	47.6	64.2	40.3	36.6	0.7
Britain	− 47.4	Aug	− 19.2	Q2	− 1.9	− 2.4	105.2	109.9	0.69	0.69	–	0.63	0.57	1.2
Canada	+ 47.4	Jul	+ 25.5	Q2	+ 2.6	+ 1.9	76.8	78.9	1.56	1.52	2.26	1.42	1.29	2.6
Denmark	+ 7.0	Aug	+ 6.0	Aug	+ 1.8	+ 1.7	102.8	99.2	8.18	8.78	11.8	7.44	6.75	2.9
France	+ 2.0	Aug	+ 17.4	Jul	+ 1.5	+ 1.5	101.9	99.4	7.22	7.74	10.4	6.56	5.95	-0.5
Germany	+ 64.1	Aug	− 18.8	Aug	− 1.0	− 0.9	98.9	95.7	2.15	2.31	3.11	1.96	1.78	-1.7
Italy	+ 2.8	Jul	− 3.8	Jun	− 0.3	− 0.2	72.7	71.0	2,130	2,284	3,083	1,936	1,757	-1.3
Japan	+ 81.0	Aug	+ 89.3	Aug	+ 2.0	+ 1.9	138.2	159.0	121	108	175	110	–	-6.3
Netherlands	+ 18.6	Jul	+ 13.7	Q2	+ 4.0	+ 4.1	98.2	95.6	2.42	2.60	3.51	2.20	2.00	1.3
Spain	− 38.3	Jul	− 16.6	Jun	− 2.7	− 2.7	74.4	72.8	183	196	265	166	151	nil
Sweden	+ 12.1	Aug	+ 5.2	Jul	+ 1.9	+ 2.1	73.8	80.0	10.44	10.06	15.1	9.49	8.61	3.6
Switzerland	+ 0.5	Aug	+ 27.0	Q2	+10.6	+10.5	111.7	107.1	1.63	1.77	2.36	1.48	1.34	na
United States	−450.6	Jul	−449.9	Q2	− 4.2	− 4.0	118.0	115.5	–	–	1.45	0.91	0.82	2.1
Euro area	+ 7.1	Jul	− 29.4	Jul	− 0.3	− 0.2	79.4	74.5	1.10	1.18	1.59	–	0.91	-0.6
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 13.5	Aug	+ 8.4	Aug	na	na	78.7	75.5	6.52	7.02	9.44	5.93	5.38	5.3
Greece	− 7.4	Jun	− 7.3	Jun	na	na	57.5	56.5	374	400	541	340	308	nil
Iceland	− 0.3	Aug	− 0.9	Q1	na	na	na	na	101	85.5	147	92.1	83.6	2.4
Ireland	+ 30.3	Jul	− 1.5	Q2	na	na	87.9	84.0	0.86	0.93	1.24	0.78	0.71	4.5
Luxembourg	− 3.1	Jul	+ 1.2	Q2	na	na	99.2	97.0	44.3	47.6	64.1	40.3	36.5	3.6
New Zealand	+ 0.2	Aug	− 1.9	Q2	na	na	79.4	72.7	2.42	2.54	3.50	2.20	2.00	1.0
Norway	+ 27.3	Sep	+ 26.6	Jul	na	na	96.7	91.8	8.77	9.49	12.7	7.97	7.23	15.3
Portugal	− 13.6	Jun	− 9.4	Jul	na	na	89.6	87.7	220	237	318	200	181	-1.2

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †1990=100, Bank of England. ‡OECD estimate.

Text refers only to the first 16 countries listed

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Exchange rates against the dollar

Oct 18th 2001
From The Economist print edition

Rich countries' currencies have rebounded from their lows against the dollar this year, as the outlook for America's economy has deteriorated. The Swiss franc has been especially strong since September 11th.

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Overview

Oct 18th 2001
From The Economist print edition

Even on its own (notoriously bullish) official statistics, **China's** GDP growth slowed to 7.0% in the year to the third quarter, down from 7.8% in the previous quarter. China's economic growth had been expected to slow along with economic weakness in its trading partners, especially America and Europe. Consumer prices fell by 0.1% in the year to September, pushing China into deflation for the first time since April 2000.

Growth in **Czech** industrial output slowed from 9.3% in the year to July to 3.0% in the year to August, the slowest rate since December 2000. A declining demand for exports has reduced industrial production as well as employment.

Mexico's industrial production suffered a steeper decline, dropping by 5.4% in the year to August. Much of the fall is a result of poor consumer confidence in America.

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The Economist poll of forecasters

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From The Economist print edition

Every three months, *The Economist* polls a group of forecasters and calculates the average of their predictions for growth and current-account balances for 25 emerging economies. The panel now expects GDP to fall this year in six countries, compared with only one (Turkey) in July. It is more pessimistic about growth in 2002 everywhere except Russia. Forecasts for IT-exporting countries in South-East Asia have been slashed most.

October

	Real GDP % change		Current account % of GDP	
	2001	2002	2001	2002
China	7.5	7.3	0.9	0.3
Hong Kong	–0.2	2.3	4.3	4.4
India	5.2	5.8	–0.7	–0.7
Indonesia	2.9	3.4	3.2	2.3
Malaysia	0.0	2.5	6.9	5.9
Philippines	2.5	2.9	4.6	4.0
Singapore	–1.4	2.2	23.7	22.1
South Korea	1.8	3.2	2.4	2.0
Taiwan	–2.1	2.3	4.2	3.3
Thailand	1.6	2.7	4.0	3.2
Argentina	–1.5	1.2	–2.2	–1.8
Brazil	1.3	1.9	–5.1	–4.6
Chile	3.2	3.5	–2.3	–2.4
Colombia	2.1	2.9	–2.0	–2.7
Mexico	–0.1	2.2	–3.1	–3.4
Peru	0.5	3.4	–1.8	–2.3
Venezuela	3.0	2.5	4.2	2.6
Egypt	3.0	3.5	–0.4	–1.4
Israel	1.0	2.8	–4.1	–3.9
South Africa	2.6	3.0	–0.3	–0.9
Turkey	–7.4	2.8	2.5	0.2
Czech Republic	3.5	3.8	–5.7	–5.6
Hungary	4.0	4.4	–3.5	–4.2
Poland	1.8	2.7	–4.7	–4.8
Russia	4.9	4.0	12.0	6.4

Sources: ABN Amro; Deutsche Bank; Economist Intelligence Unit; Goldman Sachs; HSBC; ING Barings; J.P.Morgan Chase; Merrill Lynch; Salomon Smith Barney; UBS Warburg.

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Economy

Oct 18th 2001
From The Economist print edition

	% change on year earlier						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 7.0	Q3	+ 9.5	Sep	– 0.1	Sep	+18.6	Sep	+20.5	2000	187.5	Jul
Hong Kong	+ 0.5	Q2	– 0.1	Q2	– 1.1	Aug	–12.0	Aug	+ 8.2	Q2	113.4	Sep
India	+ 4.4	Q2	+ 1.8	Aug	+ 5.2	Aug	– 5.7	Aug	– 2.3	Q1	42.0	Sep
Indonesia	+ 3.5	Q2	+ 7.5	Q1	+13.0	Sep	+24.8	Aug	+ 6.3	Q1	28.2	Jul
Malaysia	+ 0.5	Q2	– 7.3	Aug	+ 1.4	Sep	+15.7	Aug	+ 1.8	Q2	26.9	Jul
Philippines	+ 3.3	Q2	– 2.1	Jul	+ 6.1	Sep	+ 4.5	Jul	+ 6.9	Jun	12.3	Jul
Singapore	– 5.6	Q3	–21.4	Aug	+ 0.7	Aug	+ 4.2	Aug	+22.6	Q2	74.0	Jul
South Korea	+ 2.7	Q2	– 4.7	Aug	+ 3.2	Sep	+11.5	Sep	+12.1	Aug	97.0	Jul
Taiwan	– 2.4	Q2	– 8.2	Aug	– 0.5	Sep	+13.0	Sep	+14.1	Q2	115.2	Sep
Thailand	+ 1.9	Q2	+ 1.4	Aug	+ 1.4	Sep	+ 2.9	Aug	+ 6.7	Aug	32.6	Aug
Argentina	– 0.5	Q2	– 5.6	Aug	– 1.1	Sep	+ 3.4	Aug	– 8.4	Q2	16.7	Jul
Brazil	+ 0.8	Q2	nil	Aug	+ 7.3	Sep	– 0.1	Sep	–27.1	Aug	35.5	Jul
Chile	+ 3.4	Q2	+ 1.7	Aug	+ 3.9	Sep	+ 1.6	Sep	– 1.6	Q2	14.7	Aug
Colombia	+ 1.6	Q2	+ 0.5	Jul	+ 8.0	Sep	+ 0.9	Jul	– 0.7	Q1	9.5	Jul
Mexico	nil	Q2	– 5.4	Aug	+ 6.1	Sep	– 9.5	Aug	–17.5	Q2	41.2	Aug
Peru	– 0.8	Jul	– 3.3	Aug	+ 0.9	Sep	– 0.2	Aug	– 1.4	Q2	8.8	Jul
Venezuela	+ 2.9	Q2	na		+12.3	Sep	+15.6	Q2‡	+11.1	Q2	10.6	Jul
Egypt	+ 6.5	2000†	+ 9.4	2000†	+ 2.2	Jul	– 9.9	Q1	– 0.2	Q1	13.0	Jun
Israel	+ 1.4	Q2	– 5.8	Jul	+ 2.5	Sep	– 7.3	Aug	– 1.1	Q1	24.2	Oct
South Africa	+ 2.5	Q2	+ 0.6	Aug	+ 4.4	Sep	+ 4.3	Aug	+ 0.4	Q2	6.0	Aug
Turkey	– 9.3	Q2	–10.1	Aug	+61.8	Sep	–19.3	Jul	– 3.1	Jul	17.2	Jul
Czech Republic	+ 3.9	Q2	+ 3.0	Aug	+ 4.7	Sep	– 3.5	Aug	– 2.7	Q2	13.4	Aug
Hungary	+ 4.0	Q2	+ 1.4	Aug	+ 8.0	Sep	– 2.3	Aug	– 1.4	Aug	12.0	Aug
Poland	+ 0.9	Q2	+ 0.7	Aug	+ 4.3	Sep	– 9.6	Aug	– 6.2	Aug	27.3	Sep
Russia	+ 5.1	Q2	+ 3.8	Sep	+20.1	Sep	+57.7	Aug	+44.6	Q2	33.7	Aug
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Pakistan	+ 3.3	2001†	+10.2	Jun	+ 2.9	Sep	– 1.5	Jul	– 1.1	2001†	1.3	Jun
Saudi Arabia	+ 4.5	2000§	na		– 0.3	Jul	+50.9	2000	+15.6	2000	17.0	Jul

*Excluding gold, except Singapore; IMF definition. †Year ending June. ‡New series. § Economist Intelligence Unit estimate.

Text refers only to the first 25 countries listed

Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends*.

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Financial markets

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From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Oct 17th		Dec 31st 2000	
	Oct 17th	year ago	Oct 17th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	12.0	na	1,713.8	– 2.7	–21.8	–21.8
Hong Kong	7.80	7.80	11.3	2.20	10,260.8	– 0.4	–32.0	–32.0
India	48.0	46.4	69.5	6.92	3,043.9	+ 5.1	–23.4	–25.5
Indonesia	10,013	8,910	14,492	17.95	381.4	+ 3.5	– 8.4	–11.5
Malaysia	3.80	3.80	5.50	3.30	621.6	+ 2.9	– 8.5	– 8.5
Philippines	51.8	48.8	74.9	12.94	1,043.0	+ 5.2	–30.2	–32.6
Singapore	1.82	1.76	2.63	1.15	1,442.1	+ 5.6	–25.2	–28.6
South Korea	1,298	1,139	1,878	4.38	528.3	+ 4.9	+ 4.7	+ 2.1
Taiwan	34.5	32.5	50.0	2.90	3,817.1	+ 5.5	–19.5	–22.9
Thailand	44.7	43.8	64.7	3.00	287.8	+ 0.4	+ 6.9	+ 3.7
Argentina	1.00	1.00	1.45	42.80**	251.6	+12.3	–39.7	–39.7
Brazil	2.72	1.88	3.94	19.05	11,254.7	+ 7.6	–27.9	–48.3
Chile	704	571	1,020	1.95*	5,122.4	+ 2.8	+ 5.2	–14.3
Colombia	2,300	2,157	3,330	11.54	779.8	– 9.4	na	na
Mexico	9.23	9.58	13.4	8.20	5,541.9	– 2.5	– 2.0	+ 2.1
Peru	3.45	3.50	5.0	5.04	1,149.5	+ 1.6	– 4.9	– 2.8
Venezuela	743	693	1,075	20.09	6,749.1	+ 1.5	– 0.7	– 6.4
Egypt	4.26	3.76	6.16	8.70	5,734.8	+ 4.3	–25.1	–31.6
Israel	4.31	4.12	6.24	4.47	376.7	+ 1.6	–23.8	–28.5
South Africa	9.30	7.71	13.5	9.11	8,672.5	+ 2.9	+ 4.2	–15.2
Turkey	1,631,500	680,490	2,361,433	57.00	8,960.6	+11.3	– 5.0	–61.0
Czech Republic	36.9	41.9	53.4	5.32	359.1	+ 2.4	–25.0	–23.5
Hungary	281	311	406	10.78	6,508.2	+ 0.5	–17.1	–16.6
Poland	4.09	4.70	5.92	13.90	13,132.4	+ 4.9	–26.4	–25.7
Russia	29.6	27.9	42.8	25.00	197.6	+ 7.4	+42.2	+37.9
EMF (MSCI)‡	1.00	1.00	1.45	na	266.4	+ 3.6	na	–20.2
EMBI+§	1.00	1.00	1.45	na	205.9	+ 3.8	na	+ 2.0

*Inflation adjusted. †In $ terms. ‡Emerging Markets Free. §J.P. Morgan Chase's Emerging Markets Bond Index Plus. **New series.

Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends.*

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